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PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 13 JUNE 2019

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on THURSDAY, 13 JUNE 2019 at 10.00 AM

J. J. WILKINSON,
Clerk to the Council,

6 June 2019

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 5 - 8) Minute of Meeting held on 7 March 2019 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Fund Strategy Statement and Statement of Investment Principles 2019 (Pages 9 - 54) Consider report by Chief Financial Officer. (Copy attached).	10 mins
6.	Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2018/19 (Pages 55 - 58) Consider report by Chief Officer Audit & Risk. (Copy attached).	10 mins
7.	Governance Policy and Compliance Statement 2018 (Pages 59 - 76) Consider report by Chief Financial Officer. (Copy attached).	5 mins
8.	Pension Administration Performance 2018/19 (Pages 77 - 84) Consider report by Service Director HR & Communications. (Copy attached).	5 mins
9.	Training Plan 2019/20 (Pages 85 - 98) Consider report by Chief Financial Officer. (Copy attached).	5 mins
10.	Business Plan 2019/20 - 2021/22 (Pages 99 - 122)	10 mins

	Consider report by Chief Financial Officer. (Copy attached).	
11.	Risk Register Update (Pages 123 - 138) Consider report by Chief Financial Officer. (Copy attached).	19 mins
12.	Budget Out-Turn to 31 March 2019 (Pages 139 - 144) Consider report by Chief Financial Officer. (Copy attached).	5 mins
13.	Draft Annual Report and Accounts 2018/19 (Pages 145 - 210) Consider report by Chief Financial Officer. (Copy attached).	10 mins
14.	Information Update (Pages 211 - 214) Consider briefing paper by Chief Financial Officer. (Copy attached).	5 mins
15.	Any Other Items Previously Circulated	
16.	Any Other Items which the Chairman Decides are Urgent	
17.	Items Likely To Be Taken In Private Before proceeding with the private business, the following motion should be approved:- “That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.”	
18.	Minute (Pages 215 - 216) Private Section of Minute of Meeting held on 7 March 2019 to be noted and signed by the Chairman. (Copy attached).	5 mins
19.	Quarter Investment Performance Update (Pages 217 - 258) Consider report by KPMG. (Copy attached).	30 mins
20.	Infrastructure Performance (Pages 259 - 278) Consider report by Chief Financial Officer. (Copy attached).	10 mins

NOTES

1. Timings given above are only indicative and not intended to inhibit Members' discussions.
2. Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.

Membership of Committee:- Councillors D. Parker (Chairman), J. Brown, G. Edgar, C. Hamilton, D. Moffat, S. Mountford, S. Scott, S. Aitchison, Mr E Barclay, Mr M Drysdale, Ms T Dunthorne, Ms K M Hughes, Ms L Ross, Ms C Stewart and Ms H Robertson

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**SCOTTISH BORDERS COUNCIL
PENSION FUND COMMITTEE AND PENSION BOARD**

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in KPMG, Saltire Court, 20 Castle Terrace,
Edinburgh EH1 2EG on Thursday, 7 March
2019 at 10.00 am

Present:- Councillors D. Parker (Chairman), J. Brown, G. Edgar, D. Moffat,
S. Mountford, S. Scott, Mr M Drysdale and Ms L Ross

Apologies:- Councillors C. Hamilton, S. Aitchison, Mr E Barclay, Ms T Dunthorne,
Ms K M Hughes and Ms C Stewart

Absent:- Councillors Ms H Robertson

In Attendance:-

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 30 November 2018.

DECISION

NOTED for signature by the Chairman.

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 dated 25 February 2019.

DECISION

NOTED the Minute.

3. **RISK REGISTER UPDATE**

There had been circulated copies of a report by the Chief Financial Officer which formed part of the risk review requirements. The report provided Members of the Pension Fund Committee and Pension Board with an update on the progress of the actions taken by management to mitigate these risks, a review of any new risks and highlighted changes to 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 1 May 2018 and the revised risk register was approved by the Joint Pension Fund Committee and Pension Board on 14 June 2018 with an update of the actions undertaken on 30 November 2018. With reference to Risk 2.2 – 'Employer', shown in Appendix 1 to the report, Mrs Robb highlighted that the transition from Barnett Waddington to Hymans Robertson had been completed. In response to a question regarding the amber status of Risk 6.5 – 'Regulatory & Compliance', it was noted that the Pension Fund had no control over this risk and that the current likelihood was assessed as a '4'. The consultation process on changes to the LGPS structure was also still ongoing.

DECISION

(a) NOTED:-

(i) The management actions contained in Appendix 1 to the report; and

(ii) No new quantifiable risks have been identified since the

last review.

(b) AGREED to a full review being undertaken in June 2019.

4. BUDGET MONITORING & SETTING

With reference to paragraph 7 of the Minute of 30 November 2018, there had been circulated copies of a report providing the Pension Fund Committee and Pension Board with an updated position of the Pension Fund budget to 31 December 2018 including proposed budget for 2019/20. 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 14 June 2018 following the standard presentation recommended by the CIPFA accounting guidelines. The report was the third quarterly monitoring report of the approved budget. The total expenditure to 31 December 2018 was £0.82m with a projected total expenditure of £6.409m against a budget of £6.401. The projected overspend was a result of the Data Quality check required by the Pension Regulator. A budget of £6.402m was proposed for 2019/20 reflecting the revised asset allocation approved in September 2018 and the £69k for implementation of the members' Self Service portal. Mrs Robb explained that managers' fees had not been included in the expenditure to 31 December 2018.

DECISION

(a) NOTED the actual expenditure to 31 December 2018.

(b) AGREED the proposed budget for 2019/20.

5. INFORMATION UPDATE

- 5.1 With reference to paragraph 10 of the Minute of 30 November 2018, there had been circulated a briefing paper by the Pension and Investment Manager and HR Shared Services Team Leader providing members with an update on a number of areas which were being monitored and where work was progressing. Full reports on individual areas would be tabled as decisions and actions were required. In summary:
- 5.2 Guarantee Minimum Pension (GMP) Reconciliation
Stage 2 of the GMP reconciliation was progressing, with only 6% of fund members still to be reconciled.
- 5.3 Pension Regulator Scheme Return – Data Scoring
The Rectification Plan would be presented to the June meeting of the Pension Fund Committee and Pension Board.
- 5.4 Scheme Advisory Board
The Scheme Advisory Board had met on 12 February 2018; the minutes had been circulated with the agenda.
- 5.5 Training Opportunities
The next training event was scheduled for 3 September 2019; any items for the agenda should be emailed to Mrs Robb. Baillie Gifford 's seminar would be held from 9-10 October 2019. There would be six places available. In response to a question, Mrs Robb advised that Pension Fund Committee and Pension Board members were required to attend two training session per year.

DECISION

NOTED the information update.

MEMBER

Councillor Mountford joined the meeting following consideration of the above report.

6. **LOCAL GOVERNMENT IN SCOTLAND - FINANCIAL OVERVIEW 2017/18**
There had been circulated copies of a report by the Accounts Commission providing an outline of the overall financial health of local government and the significant challenges for local government finance that lay ahead. The report included a local government financial overview together with a review of the Local Government Pension Scheme in Scotland. Supplement 2 to the report contained a financial overview of the Scottish Local Government Pension Scheme (SLGPS). Mr Robertson highlighted from the report: the Scottish Borders Pension Fund had the highest funding level at 114%; membership was increasing, returns over the one, three and five year period had been above the benchmark and, the contribution rate was one of the lowest at 18%.

DECISION

NOTED the report by the Accounts Commission on the Financial Overview of Local government in Scotland 2017/18, and the Financial Overview of the Scottish Local Government Pension Scheme 2017/18.

7. **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

8. **MINUTE**
The Committee noted the Private Minute of the meeting of 30 November 2018.
9. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**
The Committee noted and agreed the Private Minute of the Pension Fund Investment Performance Sub-Committee of 25 February 2019.
10. **QUARTER PERFORMANCE UPDATE**
The Committee noted a private report by KPMG.

The meeting concluded at 10.40 am

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FUND STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES 2019

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2019. Both these documents should be kept under review and be updated and approved annually in line with the Pension Fund's business plan. This report discharges that requirement.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles and Funding Strategy Statement.
- 1.3 **Appendix A** contains the Funding Strategy Statement
- 1.4 **Appendix B** contains the revised Statement of Investment Principles (SIP) for approval.

2 RECOMMENDATIONS

- 2.1 **It is recommended that committee approve:**
 - (a) **the Funding Strategy Statement set out in Appendix A and;**
 - (b) **the Statement of Investment Principles set out in Appendix B**

3 BACKGROUND

- 3.1 It is a requirement of the Local Government Pension Scheme (LGPS) Regulations that the Pension Fund maintains a Statement of Investment Principles (SIP) and keeps this under review.
- 3.2 Local Government Pension Scheme (LGPS)GPS administering authorities are also required by regulation to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the "Myners Principles" and the reporting of compliance with these principles, must be included in the SIP.
- 3.3 **Myners Principle 2: Clear Objectives** states that:
An overall investment objective(s) should be set out for the fund that takes account of the schemes liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Myners Principle 3: Risk and Liabilities states that:

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

- 3.4 An authority can demonstrate compliance with these Myners Principles through the review of its investment objectives and the strategic asset allocation in light of updated actuarial valuations of the Fund's liabilities.
- 3.5 The 2017 Valuation of the Fund reported a 114% funding position in relation to the estimated assets held against future liabilities. This is a strong position for the Fund and it is important to continue to ensure that this position is maintained in the long term in order to meet the Fund's primary aim:

"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."

4 FUNDING STRATEGY STATEMENT

- 4.1 **Appendix A** contains the Funding Strategy Paper as approved by the Pension Fund Committee on 14 June 2018. The only change to the Statement in in para 2.3 to reflect the appointment of Hyman Robertson as the Funds actuary.

5 STATEMENT OF INVESTMENT PRINCIPLES

- 5.1 **Appendix B** contains the revised Statement of Investment Principles (SIP). The main amendments to the Statement are listed below:

Para		
4.5	Updated to reflect the mature position of the fund from a cash flow perspective.	
4.10	Updated to reflect revised fund managers	
4.14	Updated to reflect the revised target following the 2017 actuarial valuation and asset review	
4.19	Updated to reflect the mature position of the fund from a cash flow perspective.	
4.21	Updated to reflect appointment of Hyman Robertson as Actuary	
4.26	Updated to reflect revised asset allocation	
6.4	Updated to reflect Responsible Investment Policy approved 30 November 2018.	
Appendix 3	Updated to reflect revised asset allocation approved 13 September 2018.	
Appendix 4	Updated to reflect appointment of new managers.	
Appendix 5	Inclusion of approved Statement of Responsible Investment.	

6 IMPLICATIONS

6.1 Financial

The Statement of Investment Principles sets out the strategic framework to deliver the target returns required to meet the Fund's funding objectives. Successful delivery of these principles should ensure the stability of the funding position of the Pension Fund and therefore the stability of employer contribution rates.

6.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

6.3 Equalities

An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

6.4 Acting Sustainably

Social and environmental issues are set out in Section 6 of this report which demonstrates that the Council is acting sustainably.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted and comments incorporated within the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager

Background Papers:

Previous Minute Reference: Pension Fund Committee, 14 June 2018

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Pension & Investment can also give information on other language translations as well as providing additional copies.

Contact us at Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 PSA
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SCOTTISH BORDERS COUNCIL PENSION FUND FUNDING STRATEGY STATEMENT 2019

Finance

Chief Executive

Approved – Pension Fund Committee 13 June 2019

Introduction

This is the Funding Strategy Statement (the FSS) for the Scottish Borders Council Pension Fund (the Fund) which is administered by Scottish Borders Council (the Administering Authority). It has been prepared in accordance with Regulation 56 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014 (the Regulations).

It should be read in conjunction with the Fund's Statement of Investment Principles (the SIP).

This version of the FSS was agreed by the Pension Fund Committee (the Committee) on 13 June 2019.

1. Purpose of the Funding Strategy Statement

1.1 The purpose of the FSS is to explain the Fund's approach to meeting the pension scheme's liabilities and in particular:

- to establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to take a prudent longer-term view of funding those liabilities;
- to ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that secures the solvency of the Fund and the long term cost efficiency of the Scheme; and
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible.

Aims and purposes of the Fund

1.2 The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the administering authority and employers alike; and
- seek returns on investment within reasonable risk parameters.

1.3 The purposes of the Fund are to:

- pay pensions, lump sums and other benefits to scheme members as provided for under the Regulations;
- meet the costs associated in administering the Fund; and
- receive contributions, transfer values and investment income.

Funding Objectives

- 1.4 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.
- 1.5 The funding objectives are to:
 - 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;
 - build up the required assets in such a way that produces levels of employer contribution that are as stable as possible, with consideration of the long-term cost efficiency objective;
 - ensure effective and efficient management of employers' liabilities; and
 - allow the return from investments to be maximised within reasonable risk parameters.

2 Consultation

- 2.1 In accordance with Regulation 56(3), all employers participating within the Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.
- 2.2 In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (the Investment Regulations), as required by Regulation 56(4)(b)
- 2.3 The Fund Actuary, Hyman Robertson, has also been consulted on the contents of this Statement.

3 Key Parties

- 3.1 The parties directly concerned with the funding aspect of the Pension Fund are noted below. A number of other parties, including investment managers and external auditors, also have responsibilities to the Fund, but are not key parties in determining funding strategy.

The Administering Authority

- 3.2 The Administering Authority for the Scottish Borders Council Pension Fund is Scottish Borders Council. The main responsibilities of the Administering Authority are as follows:
 - collect and account for employee and employer contributions;
 - pay the benefits to Scheme members as they fall due;
 - invest the Fund's assets ensuring sufficient cash is available to meet liabilities as and when they become due;
 - manage the Actuarial Valuation process in conjunction with the Fund Actuary;
 - effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme Employer;
 - prepare and maintain this FSS and also the SIP after consultation with other interested parties; and

- monitor all aspects of the Fund's performance and funding and ensure that the FSS and SIP are updated as necessary.

Individual Employers

3.3 The responsibilities of each individual employer which participates in the Fund, including the Administering Authority are as follows:

- collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales;
- promptly notify the Administering Authority of any new Scheme members and any other membership changes;
- exercise any discretions permitted under the Regulations;
- meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures;
- pay any exit payments due on ceasing participation in the Fund; and
- provision of relevant information and data in order for the Fund Actuary facilitate the Valuation process, .

Scheme members

3.4 Active scheme members are required to make contributions into the Fund as set out in the Regulations.

Fund Actuary

3.5 The Fund Actuary for the Scottish Borders Council Pension Fund is Hyman Robertson. The main responsibilities of the Fund Actuary are to:

- prepare the Actuarial Valuation including setting employers' contribution rates at a level to help secure Fund solvency and long-term cost efficiency of the Scheme, after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations;
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.;
- provide advice and valuations on the exiting of employers from the Fund;
- provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the Fund of employer default;
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- advise on other actuarial matters affecting the financial position of the Fund.

4 Solvency and Maturity

- 4.1 The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities in respect of service prior to the measurement date when measured using 'ongoing' actuarial methods and assumptions.
- 4.2 Ongoing actuarial methods and assumptions are taken to be measured by use of the Projected Unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.
- 4.3 The financial assumptions used to assess the financial position will have regard to the yields available on long-term fixed interest and index linked gilt-edged investments and an allowance for the higher long-term returns that are expected from equity type investments based on the Fund's long-term investment strategy. The Administering Authority understands the risks of such an approach if those additional returns fail to materialise.
- 4.4 Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement.
- 4.5 The Fund is mature such that new contributions from employers and employees are not sufficient to meet all benefit payments falling due. In order to meet the short term cashflow requirements the income generated by some investments will be realised.

5 Funding Strategy

- 5.1 The funding strategy seeks to achieve (via employee and employer contributions and investment income) **three key objectives**:
 - **A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations;**
 - **Ensuring the solvency of the Fund and the long-term cost efficiency of the Scheme; and**
 - **As stable an employer contribution rate as is practical.**
- 5.2 The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements and investment income, and the employer contribution has to be adjusted to a level sufficient to maintain the pension scheme's solvency and to achieve a funding level of 100% over the longer term.
- 5.3 The Actuarial Valuation process is essentially a projection of future cashflows to and from the Fund. The main purpose of the Valuation is to determine the level of employers' contributions that should be paid over an agreed period to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.
- 5.4 The last Actuarial Valuation was carried out as at 31 March 2017 with the **assets of the Fund found to represent 114% of the accrued liabilities for the Fund**; this compares with 101% at the 2014 Actuarial Valuation. The primary rate required to cover the employer cost of future benefit accrual was 20.6% of payroll p.a.

Funding Method

- 5.5 The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.
- 5.6 The funding target is to have sufficient assets to meet the accrued liabilities for each employer in the Fund. The funding target may, however, also depend on certain employer circumstances and will, in particular, have regard to whether an employer is an "open" employer (which allows new recruits access to the Fund), or a "closed" employer (which no longer permits new staff access to the Fund). The expected period of participation by an employer in the Fund may also affect the chosen funding target.
- 5.7 For **open employers**, the actuarial funding method that was adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the Valuation date ("past service") and benefits in respect of service expected to be completed after the Valuation date ("future service"). This approach focuses on:-
- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; a funding level of less than 100% indicates a deficit.
 - The future service funding rate (also referred to as primary rate as defined in Regulation 60(5) of the Regulations) i.e. the level of contributions required from the individual employers which together with employee contributions are expected to support the cost of benefits accruing in future.
- 5.8 The key feature of this method is that in assessing the future service cost the primary contribution rate represents the cost of one year's benefit accrual.
- 5.9 For **closed employers** an alternative funding method that may be adopted is known as the Attained Age Method. The key difference with this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.
- 5.10 For **closed limited-term employers** such as some Transferee Admission Bodies, a modified version of the Projected Unit Method with a control period equal to the remaining term of the contract may be used and this usually gives results between the pure Projected Unit Method and the Attained Age Method.

Valuation Assumptions and Funding Model

- 5.11 In completing the Actuarial Valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.
- 5.12 The assumptions adopted at the Valuation can therefore be considered as:-
- the statistical assumptions which generally speaking are estimates of the likelihood of benefits and contributions being paid; and,
 - the financial assumptions which generally speaking will determine the estimates of the amount of benefits and contributions payable and their current or present value.

5.13 *Future Price Inflation*

The base assumption in any Valuation is the future level of Retail Price Inflation (RPI). This is derived by considering the average difference in yields from conventional and index linked gilts

during the 6 months straddling the Valuation date using the Bank of England Inflation Curves. The resultant RPI increase assumption used in the 2017 valuation is 3.7% per annum.

5.14 **Future Pay Inflation**

As benefits are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation in the longer term. The long-term pay increase assumption adopted for the 2017 valuation was CPI plus 1% per annum.

5.15 **Future Pension Increases**

The pension increase orders are linked to changes in the level of the Consumer Price Index (CPI) rather than RPI. Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. It was therefore assumed for the 2017 valuation that CPI increases will be 0.9% less than the RPI increase assumption.

5.16 **Future Investment Returns/Discount Rate**

- i. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.
- ii. The discount rate adopted depends on the funding target adopted for each employer.
- iii. For open employers, the discount rate applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the 6 months straddling the Valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. At the 2017 Valuation the ongoing discount rate was 5.0% per annum.
- iv. For closed employers, with no individual active membership, an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission requires it.
- v. The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.
- vi. The adjustment to the discount rate is essentially to set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis to minimise the risk of deficits arising after the termination date.

Asset Valuation

5.17 For the purposes of the valuation the asset valuation is based on the market value of the accumulated Fund at the Valuation date adjusted to reflect average market conditions during the 6 months straddling the Valuation date.

Statistical Assumptions

5.18 The statistical assumptions incorporated into the Valuation such as future rates of mortality etc are based on national statistics but then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual employers.

5.19 Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

Deficit Recovery/Surplus Amortisation Periods

- 5.20 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.
- 5.21 Where the Actuarial Valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.
- 5.22 The period that is adopted for any particular employer will depend upon
- the significance of the surplus or deficit relative to that employer's liabilities;
 - the covenant of the individual employer and any limited period of participation in the Fund; and
 - the implications in terms of stability of future levels of employers' contribution.
- 5.23 At the 2017 Valuation there was no requirement for a deficit recovery period for any employer in the Fund. Although the Primary rate calculated at the 2017 valuation had increased from previous levels, due to the level of surplus revealed it was possible to apply a negative secondary rate adjustment in order to help maintain a stable level of employer contribution.

Pooling of Individual Employers

- 5.24 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly contribution rates are set for individual employers to reflect their own particular circumstances.
- 5.25 However, certain groups of individual employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small. Employers with weak financial covenants would be liable for enhanced contributions. Currently all employers are within the main funding pool other than CGI and SBHA who are closed funds.
- 5.26 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross subsidy of pension cost amongst pooled employers

Cessation Valuations

- 5.27 On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. It also depends on what will happen to the current active members of the Fund and whether they will continue to be active members on cessation or not.
- 5.28 In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous Valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

- 5.29 The basis used by the actuary to determine the cessation amount will depend on where the future responsibility will lie for the accrued liabilities. It will also depend on the market conditions at the time and as mentioned above, what will happen to the current active members.

Next Valuation

- 5.30 The next Actuarial Valuation is due as at 31 March 2020.

6 Links with the Statement of Investment Principles

- 6.1 The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.
- 6.2 As explained above the ongoing discount rate adopted in the Actuarial Valuation is derived by considering the expected return from the Fund's long-term investment strategy, and so there is consistency between the funding strategy and investment strategy.

7 Risks and Counter Measures

- 7.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are a number of risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.
- 7.2 The major risks for the funding strategy are financial risks although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial Risks

- 7.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or the chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The Valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the liabilities by 2% and decrease/increase the required employer contribution by around 0.6% of payroll.
- 7.4 The Pension Fund Committee regularly monitor the investment returns achieved by the fund managers and seek advice from the Fund Actuary and independent advisers on investment strategy. In the inter-valuation period 2014 to 2017 such monitoring activity saw investment returns perform better than assumed in the 2014 valuation.
- 7.5 In addition the Fund Actuary provides funding updates between Valuations to check whether that the funding strategy continues to meet the funding objectives.

Demographic Risks

- 7.6 Allowance is made in the funding strategy via the actuarial assumptions of a continuing improvement in life expectancy. However the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example an increase of 1 year to life expectancy of all members in the Fund will reduce the funding level by around 3%.
- 7.7 The actual mortality of pensioners in the Fund is however monitored by the Fund Actuary at each Actuarial Valuation and assumptions kept under review.

- 7.8 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.
- 7.9 However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory Risks

- 7.10 The benefits provided by the Scheme and employee contribution levels are set out in the Regulations as determined by central Government. The tax status of the invested assets is also determined by central Government.
- 7.11 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which increase the cost to individual employers of participating in the Scheme.
- 7.12 The Administering Authority, however, actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Governance

- 7.13 Several different employers participate in the Fund. Accordingly it is recognised a number of employer specific events could impact on the funding strategy including:
- structural changes in an individual employer's membership;
 - an individual employer deciding to close the Scheme to new employees; and
 - an employer ceasing to exist without having fully funded their pension liabilities.
- 7.14 However, the Administering Authority monitors the position of employers participating in the Fund, particularly who may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.
- 7.15 In addition the Administering Authority keeps in close touch with all individual employers participating in the Fund and holds an annual meetings with employer to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations and also to keep individual employers fully briefed on funding and related issues. Employers and Trade Union representatives are on the new Pensions Board (the Board), and participate in the joint Board/Committee meetings held by the Administering Authority and participate in discussions on all agenda items.

8 Monitoring and Review

- 8.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial Actuarial Valuation process.
- 8.2 The Administering Authority will monitor the financial and funding position of the Fund on an appropriate basis at regular intervals between valuations and will discuss with the Actuary whether any significant changes have arisen that require action

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2015 1.0	Draft for Barnett Waddingham Review updating previous FSS for the 31 March 2014 Valuation.	1 June 2015	L Mirley
2015 2.0	Final Draft for Pension Fund Committee Approval	10 June 2015	L Mirley
2017 1.0	Final Draft for Pension Fund Committee Approval	22 June 2017	K Robb
2018.10	Final Draft for Pension Fund Committee Approval	14 June 2018	K Robb
2019.1	Final draft for Pension Fund Committee approval	13 Jun 2019	K Robb

You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Pension & Investment Team can also give information on other language translations as well as providing additional copies.

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SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2019

**Finance
Chief Executive
Approved 13 June 2019**

Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 13 June 2019

1. The statutory requirements concerning the SIP

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) that includes the policy on:
 - The types of investment to be held
 - The balance between different types of investment
 - The risk considerations, including the ways in which risks are to be measured and managed¹
 - The expected return on investments
 - Realising of investments
 - Taking account of social, environmental or ethical considerations in investments
 - Exercising the rights (including voting rights) attaching to investments
 - Stock Lending¹
- 1.2 The Statement must also explain the extent to which guidance issued by Scottish Ministers has been complied with. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.¹

¹ “Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)”

2. Governance

- 2.1 Scottish Borders Council (the Council) is the Administering Authority for the Local the Scottish Borders Council Pension Fund (the Fund). The Fund is part of the Local Government Pension Scheme (LGPS.)
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to any changes in fund managers, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.
- 2.6 The SIP forms part of a governance framework that includes:
 - The Statutory Regulations
 - The Pension Fund Committee
 - The Pension Fund Investment & Performance Sub-Committee
 - The Pension Board
 - The Fund's Advisers
 - The Funding Strategy Statement²²and
 - The Governance Policy and Compliance Statement².
- 2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

² Funding Strategy Statement and Governance Policy and Compliance Statement can be found at www.scotborders.gov.uk/pensions

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

“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.”

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

Funding Objectives

3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

- To 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.
- To build up the required assets in a way that produces employer contributions, which are as stable as possible.

3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

4. Investment Policy

Investment Strategy

- 4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.
- 4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.
- 4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.
- 4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.
- 4.5 The Fund presently has a marginal negative cash flow and currently has less actively contributing members compared to members receiving pensions. It however also has 2,878 deferred members which are currently neither contributing nor receiving. The fund is a maturing fund and has reflected this in the investment strategy with a move towards a greater focus on income producing assets. The main focus of the fund however is to continue to seek capital growth to meet future liabilities.
- 4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who support the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.
- 4.7 In establishing the strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.
- 4.8 The Committee undertook a full review exercise in 2016, taking into account the funding status and liabilities and using asset liability modelling. A further review was again undertaken in August 2018 following the 2017 triennial valuation resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once every three years.
- 4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

Investment Management Arrangements

- 4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Macquarie Investment Management, Partners Group, Blackrock, Permira and Baillie Gifford, as appropriate. The Fund also works in collaboration with Lothian Pension Fund for Infrastructure opportunities.

- 4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.
- 4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.
- 4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.
- 4.14 The Fund's overall return target is to generate, at a minimum, the real discount rate assumed in the actuarial valuation. As at 31 March 2017 this was 5%. The Fund's current target return is CPI+3.7% p.a.
- 4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.
- 4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.
- 4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 March 2019.

Risk Measurement and Management

4.19 *Asset Allocation*

- The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration matched index-linked government bonds, i.e. the most natural “matching” asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.
- In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities.
- Due to its maturing position, and the 114% funding position, the Fund has reduced the “growth” assets towards income generating and indexed linked assets thereby reducing the volatility of asset returns and allowing a better match to the liabilities. Despite this evolving strategy the fund retains a significant element of its assets in equities, property and alternatives.
- The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.
- As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2018 by the Fund's investment consultant, it is envisaged that this will next be done during 2021/22 following the actuarial valuation as at 31 March 2020.

- The retrospective impact of investment risk on the Fund’s funding position is monitored on a quarterly basis via investment reports prepared by the Fund’s investment managers, the Fund’s performance monitoring company and the investment consultants.

4.20 *Investment Managers*

- To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.
- The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or outperforms their individual targets.
- The managers must also provide data to Northern Trust, the company chosen by the Committee to provide it with independent performance comparisons.
- The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.
- The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month’s notice.
- All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

4.21 *Proper Advice*

- The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

Investment Consultant	KPMG
Actuaries	Hyman Robertson

4.22 *Concentration Risk and Diversification*

- Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund’s assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.
- Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.
- This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

4.23 *Transition Management Arrangements*

- A specialist transition manager, currently State Street Global Markets (State Street), will be employed to manage complex changes in investment strategy and/or manager(s).
- The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

4.24 *Currency Risk*

- During 2016 the Committee approved the full removal of the Passive Currency Hedging mandate. As long term investors, the overseas currency exposure will act as an offset against losses in severely stressed market environments.

4.25 *Safe Keeping of Assets*

- The services of a global custodian, Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.
- The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.
- The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.
- Investment in pooled funds managed by UBS, Morgan Stanley, M&G, Partners Group, Blackrock, Permira, Macquarie and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

4.26 *Cashflow Risk and Realisation of Investments/Liquidity*

- The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.
- 55% of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.
- 45% of the Fund's investments, in particular Property, debt, infrastructure and future investments in other alternative assets would take longer to be realised.

5. Types of Investment

- 5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, infrastructure debt, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions
- Infrastructure

5.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian. For the Fund's investments in pooled funds managed by UBS, UBS participate in a stock lending programme where the revenue is reflected in the unit price. UBS AG (the parent company) acts as the principal counterparty so irrespective of the end borrower UBS' counterparty risk is only to UBS AG. Security is provided for the stock loaned by the borrower transferring ownership of other collateral assets to UBS for the period of the loan.

6. Environmental, Social and Corporate Governance Issues

- 6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.
- 6.2 The Committee has a responsibility to ensure the fund is undertaking its investment activities in a socially responsible way. This means the fund must be aware of its Environmental, Social and Governance (ESG) responsibilities.
- 6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund's fiduciary responsibilities.
- 6.4 The Committee has approved a Statement of Responsible Investment which sets out:
- overarching principles the Fund requires its investment managers to adhere to
 - delegates to the fund managers the selection and voting rights on behalf the fund
 - monitoring of the compliance of fund managers against the statement.
- 6.5 The approved Statement of Responsible Investment is set out in Appendix 5

7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team, and comes within the remit of the Council's Audit and Risk Committee.
- 7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund,

for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.

- 7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

8. Compliance with the Myners principles

- 8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*.
- 8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.
- 8.4 The six principles are:
- Effective Decision Making
 - Clear Objectives
 - Risk and Liabilities
 - Performance Assessment
 - Responsible Ownership
 - Transparency and Reporting
- 8.5 **Appendix 6** contains this statement of compliance.

Appendix 1

Pension Fund Investment and Performance Sub-Committee

The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment and Performance Sub-Committee:

1. Reviewing the Pension Fund's Statement of Investment Principles.
2. Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
3. Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
4. Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
5. Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
6. Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

Appendix 2

Pension Board

The Council approved the Constitution for the Pension Board (the Board) on 2 April 2015.

1. The Objectives of the Board are as follows:

The Board is the body responsible for assisting the Scheme Manager in relation to:

- i Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- ii securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- iii such other matters as the regulations may specify .

2. The Board also has the remit to determine the areas they wish to consider including, amongst others:

- a) Reports produced for the Pension Fund Committee;
- b) Seek reports from the Scheme Manager on any aspect of the Fund;
- c) Monitor investments and the investment principles/strategy/guidance;
- d) The Annual Report and Accounts for the Fund;
- e) External voting and engagement provisions in relation to investments;
- f) Pension Fund Administrative Strategy and associated performance;
- g) Actuarial reports and valuations;
- h) Funding Strategy Statement and associated policy; and
- i) Any other matters that the Board deems appropriate within the responsibilities set out in 1 above.

Appendix 3

Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range/ Tolerance %
UK Equity	UBS ¹	6.0%	
	Baillie Gifford	4.0%	
	Sub Total	10.0%	8% - 12%
Global Equity	Baillie Gifford	18.0%	
	Morgan Stanley	12.0%	
	Sub Total	30.0%	24% - 36%
Total Equity		40.0%	32% - 48%
Bonds			
Alpha Opportunities	M&G	10.0%	
Index Linked Gilts	M&G	5.0%	
	Total	15.0%	12% - 17%
Alternatives ²			
Multi-Asset Alternatives Fund	LGT Partners	7.5%	
Direct Lending	Permira	5.0%	
	Partners Group	5.0%	
Infrastructure Equity		5.0%	
Infrastructure debt (junior)t	Macquarie	2.5%	
Infrastructure debt (senior)	Macquarie	5.0%	
	Total	30.0%	24% - 36%
Property			
Balanced Property	UBS	5.0%	
Long Lease Property	Blackrock	10.0%	
	Total	15.0%	12% - 17%
Cash		0.0%	

Total	100.0%
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Note:

¹ This is a passive investment mandate which requires the FTSE All Share index to be tracked.

² Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

Appendix 4

Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used	
UK Equity	UBS	Benchmark Return	+0.0%	FTSE All-Share Index	
	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index	
Global Equity					
	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index	
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Net Index	
Bonds					
	Alpha Opportunities	M&G *	Benchmark Return	+3.5% - 5%	1 Month LIBOR
	Index Linked Gilts	M&G	Benchmark Return	+0.75%	UK Index Linked Gilts
Multi-Asset Alternatives Fund					
		LGT Partners	Benchmark Return	+4.0%	3 month LIBOR
		Permira	Benchmark Return	+4.0%	1 month LIBOR (Cash)
		Partners Group	Benchmark Return	+4.0%	1 month LIBOR (cash)
		Infrastructure		+3.5%	RPI
		Macquarie - Infrastructure debt (junior)	Benchmark Return	+4.5%	Euribor
		Macquarie Infrastructure debt (senior)	Benchmark Return	+2%-3%	LIBOR
Property					
		UBS	Benchmark Return	+0.75%	IPD UK PFI All Balanced Funds Index
		Blackrock	Benchmark Return	+2.5%	RPI

Appendix 5

**SCOTTISH BORDERS COUNCIL PENSION
FUND**

**STATEMENT OF RESPONSIBLE
INVESTMENT**

APPROVED 30/11/2018

1. STATEMENT OF RESPONSIBLE INVESTMENT

- 1.1 Scottish Borders Council Pension Fund's (SBCPF) overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role SBCPF believes that a positive approach to Environmental, Social and Corporate Governance (ESG) issues can positively affect the financial performance of investments whereas a failure to address these considerations can have a detrimental effect. In accordance with Trustee fiduciary duty, it is imperative that we act 'prudently, responsibly and honestly' and therefore consider both short term and long term risks when making investment decisions.
- 1.2 The Trustees recognise for example that Fiduciary duty goes beyond simply enhancing long-term returns, and in order to act prudently in the best interest of the scheme members, trustees should consider the impact of their investment decisions on risks such as climate change and other ESG related issues that can have an impact on sustainability and the value of the assets of the Fund over the long term.
- 1.3 SBCPF has therefore developed this Statement of Responsible Investment to outline how such issues are incorporated into its investment practices.
- 1.4 As a means of demonstrating its commitment to responsible investment practices, SBCPF has introduced an initial screening process to ensure all new managers adhere to and report on the United Nations Principles for Responsible Investment (UNPRI) Code & Stewardship Code, managers will be expected to use ESG factors as a tool for gather information to improve decision making, thereby managing risks.
- 1.5 SBCPF believes its obligations to scheme beneficiaries can be met by taking a balanced approach to ESG issues which uphold the highest standards, and which seek to ensure that the fund minimises any harm to the environment and society, whilst ensuring it builds up a portfolio of assets that are best placed to meet its future liabilities.
- 1.6 The Fund wishes to see its environmental foot-print minimised, its social responsibilities maximised and the highest standards of employee relations and corporate governance maintained.
- 1.7 The Fund requires its investment managers to adhere to these standards in all their investments activities and plans to monitor how these standards are upheld for the following set of overarching principles.

2 OVERARCHING PRINCIPLES

2.1 Environmental

- 2.1.1 SBCPF will seek via its investment activities to minimise its impact on the environment. It will seek to ensure our investments minimise any impact on pollution or climate change at a global and local level.

2.1.2 Where investment activities do have a material impact on the environment, SBCPF will encourage managers to work with Companies to ensure they are acting in a responsible and sustainable way and are fully committed to ESG principles.

2.2 Social responsibility

2.2.1 SBCPF wishes to ensure that managers invest in companies who adhere to all applicable laws and standards. SBCPF wish to invest in companies who have good relations with the communities they are based and ensure that these companies uphold principles of non-discrimination, fairness and avoidance of human risks violations.

2.2.2 Employee Relations – SBCPF through its fund managers we wish to ensure that none of its investments use forced or direct child labour, that the highest safety standards are upheld for employees, and where applicable employees are able to join trade unions and engage in collective bargaining.

2.2.3 SBCPF will make every effort to comply with relevant regulations governing the protection of human rights, health and safety, the environment, and the labour and business practices of the jurisdictions in which we conduct business and consider these issues in the context of our Fiduciary duty to protect members' retirement benefits'. SBCPF will seek annual assurance from its managers that the funds invested have met these standards.

2.2.4 When companies are involved in certain controversial activities, we may refrain from investment in those companies. For example, we may decide to exclude companies which are involved in the production of controversial weapons.

2.3 Corporate Governance

2.3.1 SBCPF want to ensure that all our investments adhere to the highest standards of ethical conduct and the opportunities for bribery or corruptions or money laundering are minimised.

2.3.2 SBCPF wishes to ensure Executive Managers are remunerated and incentivise appropriately. SBCPF will work through its fund managers to ensure that companies pay an appropriate share of their tax burden, in compliance with applicable law.

3 INVESTMENT DECISIONS

3.1 SBCPF delegates the selection of investments held to its fund managers and does not impose any investment restrictions in regard of social, ethical and environmental issues. SBCPF does not make any investment decisions specifically for social, ethical and environmental reasons.

3.2 SBCPF has however instructed its active and passive fund managers to take account of ESG considerations in their investment decisions, provided the primary financial obligation is not compromised.

3.3 SBCPF will ensure that the fund managers it appoints are capable of appropriately considering ESG issues when making investment choices, it will monitor the managers' action in this area

and will work with fund managers and the investment sector to ensure sufficient data is available to aid effective decision making.

- 3.4 SBCPF believes that, as a responsible investor, it has a legitimate interest in the management and corporate governance of the companies in which it invests and supports the use of voting as a means of expressing concern over ESG issues. The Fund seeks to improve corporate behaviour by maintaining effective shareholder oversight of the directors and company voting policies is undertaken on SBCPF's behalf by its fund managers. That is, SBCPF has delegated stewardship responsibilities and voting policies to the Fund managers who are expected to fully exercise the right to vote at company meetings in the best interest of shareholders as they see fit.
- 3.5 All fund managers are encouraged to engage, on SBCPF's behalf, with those companies where ESG policies fall short of acceptable standards and where this is likely to have a detrimental effect on the long-term value of the company.

4 ESG MONITORING

- 4.1 The Fund believes that signature and adherence to the UNPRI codes provides an appropriate starting point for demonstrating that they comply and believe in these principles. The Fund will encourage its fund managers to monitor the performance of companies which they are investing on the Funds behalf to comply with these principles. The fund will require an annual statement from its fund manager demonstrating how its investments meet these principles. The Fund will ask its managers to provide a statement to show how managers have considered ESG issues in their investment decisions and provide evidence to how they have engaged with Companies to promote ESG issues and flagging areas for improvement where required.
- 4.2 In order to do this the policy will develop a scoring criterion to ensure each asset manager has fulfilled the ESG criteria set by SBPF. It will not be the purpose of the policy to influence individual management investment decisions; however, it will encourage the correct behaviours to ESG issues and allow managers to demonstrate their compliance.
- 4.3 The fund expects its managers to vote at all times in the best interest of the Fund and in compliance with its ESG principles. The Fund supports the principles set out in the UK Stewardship code and will publish a statement of adherence to this code annually. The Fund will require its fund managers to provide copies of their statements to the stewardship code and will monitor their compliance with its principles.

Definitions

The aim of the UNPRI is to ensure that ESG issues are considered during the investment process and subsequent management of investments. The UNPRI was launched in 2006 and has become a standard for global best practice in responsible investing.

In accordance with the UNPRI, the Trustees will adopt the following principles where reasonable:

1. We will incorporate ESG issues into investment analysis and decision making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles

Appendix 6

Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund’s current status in relation to compliance .

Principle	Best Practice Guidance	Fund’s Current Status
<p>1. Effective Decision-Making</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<ul style="list-style-type: none"> • The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity. • The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified. • The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making. • There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions. 	<p>Full Compliance</p> <ul style="list-style-type: none"> • The Fund has a designated committee – the Committee - with the experience and skills to take decisions. • The Committee’s terms of reference is contained within the Scheme of Administration for the Council. • The Committee receives training either during meetings or at specific training sessions, including on investment issues. • Induction training is provided for new Members and Officers. • All new members required to complete The Pension Regulator trustee toolkit within 6 months of joining • The Committee has an appointed investment consultant to provide specific investment advice. • The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee

Principle	Best Practice Guidance	Fund's Current Status
<p>1. Effective Decision-Making (contd.)</p>	<ul style="list-style-type: none"> • It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making. • The committee should obtain proper advice at reasonable intervals from suitably qualified persons. • The Chief Financial Officer should be given responsibility for developing a training plan for committee members. • A business plan should be in place which should include milestones and should review level of resources needed. • Members allowances should be published and reviewed regularly. • Meeting papers should be clear and circulated sufficiently in advance of the meetings. 	<ul style="list-style-type: none"> • The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making. • The Committee carry out regular reviews of the Fund and compliance with regulations. • The Investment Consultant, Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee. • The Committee's legal advisers and any other relevant parties review any new investment contracts put in place. • There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members. • Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer • A 3 year business plan was agreed by the Committee annually and is monitored regularly. • Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007. • Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site.

Principle	Best Practice Guidance	Fund's Current Status
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Principle	Best Practice Guidance	Fund's Current Status
<p>2. Clear Objectives</p> <ul style="list-style-type: none"> An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. <p>2. Clear Objectives (contd)</p>	<ul style="list-style-type: none"> The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities. The desirability of asset liability modelling should be considered. Proper advice should be taken where appropriate. Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return. Peer group benchmarks should be avoided. Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available. 	<p>Full compliance</p> <ul style="list-style-type: none"> The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers to inform the Investment Strategy. The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the Committee set the investment managers individual mandate objectives and risk parameters. An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation. Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices. The Committee regularly reviews the investment structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the

Principle	Best Practice Guidance	Fund's Current Status
	<ul style="list-style-type: none"> • Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention. • The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established. • Transaction and transition costs should be fully understood. 	<p>appointment of managers which includes a review of cost, objectives and mandates (including risk).</p> <ul style="list-style-type: none"> • The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio. • At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers. • When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored. • As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.

Principle	Best Practice Guidance	Fund's Current Status
<p>3. Risk and Liabilities</p> <ul style="list-style-type: none"> • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	<ul style="list-style-type: none"> • The committee should have a clear policy on willingness to accept underperformance due to market conditions. • Acceptable tolerances from market index benchmarks returns should be stated. • Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices. • Overall fund objectives should be expressed in terms which relate to the liabilities. • The committee must receive an assessment of the risks associated with their liabilities, valuation and management. • The annual report should include an overall risk assessment. 	<p>Full compliance</p> <ul style="list-style-type: none"> • The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy. • Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors. • The overall Fund investment objective is expressed in terms which relate to the liabilities. • The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. A further review was undertaken in 2018 following the 2017 Actuarial valuation.. • The annual report includes a Risk Management Statement

Principle	Best Practice Guidance	Fund's Current Status
<p>3. Risk and Liabilities (contd)</p>	<ul style="list-style-type: none"> The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer. The committee should ensure the investment strategy is consistent with the scheme employers ability to pay. 	<ul style="list-style-type: none"> The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls. The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay.

Principle	Best Practice Guidance	Fund's Current Status
<p>4. Performance Assessment</p> <ul style="list-style-type: none"> Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members. 	<p>Investments</p> <ul style="list-style-type: none"> The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls. The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales. Constraints on active managers should not be overly narrow or overly wide. 	<p>Full compliance</p> <ul style="list-style-type: none"> The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods.

Principle	Best Practice Guidance	Fund's Current Status
	<ul style="list-style-type: none"> Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods. Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency. <p>Advisers</p> <ul style="list-style-type: none"> Assessment should take account of the extent of decisions delegated. A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors. <p>Decision making bodies</p> <ul style="list-style-type: none"> The committee's self-assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report. 	<ul style="list-style-type: none"> The performance of the investment managers is measured quarterly by an independent performance monitoring company. A comprehensive quarterly performance report is presented to the Committee. Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports. The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations. Factors such as past performance and price are taken into account when re-tendering for external advisers. Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for.

Principle	Best Practice Guidance	Fund's Current Status
<p>5. Responsible Ownership</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, • includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities. 	<ul style="list-style-type: none"> • Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report. • The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers. • The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. • The committee should ensure its policies are not overridden by an investment manager's general policies. • The committee should ensure that investment consultants adopt the Institutional Shareholder Committee's (ISC) Statement of Practice relating to consultants. 	<p>Full compliance</p> <ul style="list-style-type: none"> • The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents. • The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund. • The Statement of Responsible Investments states the Committee's policy on responsible ownership. • Voting on underlying shareholdings is delegated to the fund manager. • Details of the investment manager's house strategy are requested from the manager. • Feedback on interventions to be provided during meeting with manager (minimum of once per annum). • The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.

	<ul style="list-style-type: none"> The ISC’s Statement of Principles on the responsibilities of Institutional shareholders should be noted. 	
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Principle	Best Practice Guidance	Fund’s Current Status
<p>6. Transparency and Reporting</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to scheme members in the form they consider most appropriate. 	<p>Reporting ensures that:</p> <ul style="list-style-type: none"> An integrated approach to governance should be built and governance compliance statements should be maintained regularly. The Fund’s communication statement must set out the policy on the provision of information, the format and the promotion of the scheme. Examples of good communication from other funds should be sought. Annual report content should be compared to the regulations. Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information. The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance. The committee should know its stakeholders and the interests they have. 	<p>Full compliance</p> <ul style="list-style-type: none"> The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year. Examples of good communication from other funds are sought. Communications are sent to members whenever important changes to the Fund take place, or to provide updates. The Fund operates transparently and enhances accountability to scheme members. The Fund’s Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance. The Fund post all communications, policy documents and consultations on website www.scottishborderscouncilpensionfund.org

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2000 1.0	SIP – created	March 2000	A Bowman
2006 1.0	SIP – update	March 2006	A Bowman
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley, in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley
Draft 2017 1.0	Final draft of SIP to present to Pension Fund Committee on 22 June 2017	June 2017	K Robb
Draft 2019 1.0	Final draft of SIP to present to Pension Fund Committee on 6 June 2019	June 2019	K Robb

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SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2018/19

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to the Pension Fund Committee and the Pension Fund Board the Internal Audit Annual Assurance Report for the year to 31 March 2019 which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report on the adequacy and effectiveness of the Pension Fund's governance, risk management and internal controls to support the preparation of the Pension Fund's Annual Governance Statement.
- 1.3 To meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2018/19 includes the Internal Audit annual opinion, provides details of the Internal Audit activity during the year to support the opinion, and states the conformance of the Council's Internal Audit service with the PSIAS.
- 1.4 The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control within the Scottish Borders Council Pension Fund are operating satisfactorily, and governance and risk management arrangements are effective.
- 1.5 The independent assurance opinion has been used to inform the Pension Fund's Annual Governance Statement 2018/19.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee and Pension Fund Board consider the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2018/19 and provide any commentary thereon.**

3 BACKGROUND

3.1 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
“The chief audit executive [SBC’s Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

4 SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2018/19

4.1 The Chief Officer Audit & Risk’s opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control within the Scottish Borders Council Pension Fund are operating satisfactorily, and governance and risk management arrangements are effective.

4.2 Internal Audit work over the systems and controls in place at Scottish Borders Council covers the same systems for the Pension Fund. Specifically the findings of Business World ERP System Key Controls, incorporating Payroll, Sales to Cash, Procure to Pay, and Record to Report (core General Ledger and Management Reporting) system processes, were reported to SBC’s Audit and Scrutiny Committee on 13 May 2019, including the levels of assurance. The follow up review of previous recommendations from 2017/18 shows that 15 of the 18 (8 Medium Risk; 10 Low Risk) previous recommendations are now completed and there is evidence of improvements made, or action plans put in place to address issues and concerns. The 3 outstanding recommendations are work in progress. We made no further recommendations.

4.3 Through attendance at the Joint meetings of the Pension Fund Committee and Pension Fund Board to observe planning, approval, monitoring and review activity of Scottish Borders Council Pension Fund, the Internal Audit opinion is that the Fund has effective governance arrangements in place that support scrutiny and transparency of decisions made, and that Risk Management is fully embedded into the culture of the Pension Fund with evidence of risk deliberations in decision making and regular reviews / updates of Pension Fund risk register being carried out, in accordance with the Council’s Risk Management Policy and Framework, and reported to the Committee and Board for scrutiny and oversight of risk management.

4.4 The Internal Audit Annual Assurance Report 2018/19 provides assurances in relation to the Pension Fund’s corporate governance framework that is a key component in underpinning delivery of its plans and has been used to inform the Pension Fund’s Annual Governance Statement 2018/19, and the Governance Policy and Compliance Statement.

4.5 The 2018/19 annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) demonstrates sufficient evidence that the Council’s Internal Audit section conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this assurance report.

5.2 Risk and Mitigations

This report provides assurance, including assurance on arrangements for managing risks in section 4, as part of the governance framework to manage the operation of the Pension Fund and reflects best practice.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Chief Officer Audit & Risk's independent opinion on the Pension Fund's systems of internal control, governance, and risk management has been used to inform the Pension Fund's Governance Policy and Compliance Statement 2018/19.

6.2 The Council's Chief Financial Officer, Monitoring Officer, Chief Legal Officer, Service Director HR, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey
Chief Officer Audit & Risk

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036

Background Papers: Appropriate Internal Audit files

Previous Minute Reference:

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GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2018

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. It also requests approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2018/19.**
- 1.2 Appendix 1 contains the revised Governance Policy and Compliance Statement for the Pension Fund.
- 1.3 The Governance Compliance Statement is included in Appendix B to the policy and demonstrates that the Pension Fund is in full compliance with the best practice guidance.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the revised Governance Policy and Compliance Statement 2019 is approved and the Governance Compliance Statement is agreed for inclusion in the Pension Fund Annual Report and Accounts 2018/19.**

3 BACKGROUND

- 3.1 It is a requirement of the LGPS Regulations that the Pension Fund maintains a Governance Policy and Compliance Statement.
- 3.2 The Public Services Pension Act 2013 introduced the requirement for Pensions Boards and the Council approved the constitution for the Fund's Pension Board on 2 April 2015.
- 3.3 At the same meeting the Council approved changes to the Scheme of Administration which introduced the requirement for the Pension Board and Pension Fund Committee to have joint meetings and for the introduction of a Pension Fund Investment & Performance Sub-Committee. These changes were fully reflected in the Governance Policy and Compliance Statement approved previously.

4 GOVERNANCE POLICY AND COMPLIANCE STATEMENT

- 4.1 A review of the Governance Policy was undertaken and resulted in only minor changes. The revised Policy and Statement are contained in Appendix 1.
- 4.2 Section 2 Regulatory Framework has been updated to reflect the Local Government Pension Scheme (Scotland) Regulations 2018.
- 4.3 Para 7.1 has been updated to reflect the appointment of Hyman Robertson as the Funds actuary.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this proposal.

5.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

5.3 Equalities

An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this reports which would affect the Council's sustainability.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

There are no changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted on the report and their comments have been fully incorporated to the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension and Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Pension Fund Committee, 14 June 2018

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Pension & Investments Team can also give information on other language translations as well as providing additional copies.

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SCOTTISH BORDERS COUNCIL PENSION FUND

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

2019

**Finance
Chief Executive
Version: 2018 1.0
draft: Pension Fund Committee 13June 2019**

Introduction

This Statement documents the governance arrangements for the pension scheme administered by Scottish Borders Council. This version of the Governance Policy and Compliance Statement was approved by the Pension Fund Committee on 13 June 2019 and reflects the introduction of the Pension Board.

1. Administering Authority

- 1.1 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, the Scottish Borders Council Pension Fund (the Fund).
- 1.2 The Council has delegated its pension's functions to the **Pension Fund Committee**.

2. Regulatory Framework

- 2.1 The Public Services Pensions Act 2013 set out the UK framework for the governance of Public Service Pensions and states that the responsible authority for LGPS (Scotland) scheme regulations is Scottish Ministers, and they have set out these within the Local Government Pensions Scheme (Scotland) Regulations 2018.
- 2.2 The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 provides the framework for the governance arrangements for the Scottish LGPS Funds.
- 2.3 The legislation referred to above identifies that the Pensions Regulator (TPR) has oversight of the Fund and requires compliance with the TPR's requirements.
- 2.4 The Scottish Public Pensions Agency (SPPA) is responsible for supporting the Scottish Ministers in their role as responsible authority.
- 2.5 The Fund is open to all employees of scheduled bodies except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Teachers). Employees of admitted bodies can join the scheme subject to those bodies meeting the statutory requirements and on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is attached in **Appendix A**.
- 2.6 The Pension Fund Committee (the Committee) is a formal committee of Scottish Borders Council through which it exercises its role as Administering Authority.
- 2.7 The Pension Board (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework.
- 2.8 Financial affairs are conducted in compliance with the Council's Financial Regulations which have been formally adopted by the Pension Fund in 2012.
- 2.9 Funds are invested in compliance with the Fund's Statement of Investment Principles.

3. Pension Fund Committee

- 3.1 The Scheme of Administration for the Council specifies that the following functions shall be referred to the Committee:

All matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.

- 3.2 The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund (the Fund).
- 3.3 Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members.
- 3.4 The members' knowledge is supplemented by professional advice from Officers of the Council, professional advisers and external experts.
- 3.5 The Committee is comprised of seven Members of the Council:

Convener

Four members of the Administration

Two members from the Opposition

- 3.6 The Chairman of the Committee is elected by the Committee from within its membership and the presence of four Members of the Council constitutes a quorum.
- 3.7 The Independent Investment Consultant, the Chief Executive, Chief Financial Officer, Pensions and Investment Manager, HR Shared Services Manager and Chief Officer Audit & Risk also attend the Committee meetings as advisers.
- 3.8 The Committee meets at least quarterly. Additional meetings are called as appropriate.
- 3.9 The Committee papers and minutes are publicly available on the Council's website, unless they have been considered as private business in terms of Schedule 7A to the Local Government (Scotland) Act 1973. Minutes of the Committee are presented to the Executive of the Council.
- 3.10 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established under the Council's Scheme of Administration.
- 3.11 The Investment Sub-Committee is comprised of nine members, being the seven members of the Pension Fund Committee and two non-voting members nominated by the Pension Board.
- 3.12 The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment Sub-Committee:
- a) Reviewing the Pension Fund's Statement of Investment Principles.
 - b) Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.

- c) Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
- d) Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
- e) Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
- f) Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

3.13 It is anticipated that the Investment Sub-Committee will meet at least every six months and that the Chairman will be the Chairman of the Committee.

3.14 From time to time, the Committee may establish a further additional Sub-Group to address a specific issue or need. Any such Sub-Group will be chaired by a member of the Committee and the remaining membership of the Sub-Group will be appropriate to the purpose and may therefore include other members of the Committee. The minutes and decisions of these sub-groups will be presented to the Committee for noting and agreement.

4. Pension Board

4.1 The Council approved the Constitution for the Pension Board on 2 April 2015.

4.2 The Objectives of the Board are as follows:

The **Pension Board** is the body responsible for assisting the Scheme Manager in relation to:

- a) Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify .

4.3 The Board also has the remit to determine the areas they wish to consider including, amongst others:

- a) Reports produced for the Pension Fund Committee;
- b) Seek reports from the Scheme Manager on any aspect of the Fund;
- c) Monitor investments and the investment principles/strategy/guidance;
- d) The Annual Report and Accounts for the Fund;
- e) External voting and engagement provisions in relation to investments;
- f) Pension Fund Administrative Strategy and associated performance;
- g) Actuarial reports and valuations;
- h) Funding Strategy Statement and associated policy; and
- i) Any other matters that the Board deems appropriate within the responsibilities set out in 4.2 above.

4.4 The Board will consist of eight members and will consist of equal numbers of trade union representatives and employer representatives. The Board's current membership is as follows:

Employer Representatives	Borders College Scottish Borders Council Scottish Borders Housing Association (SBHA) Borders Sport & Leisure Trust (LIVE Borders)
Trade Union Representatives	Unison – 2 members Unite – 1 member GMB – 1 member

- 4.5 There will be a Chairman and Vice-Chairman for the Board and will be rotated on an annual basis between the Trade Union and Scheme Employer Representatives on the Board.

5. Meetings

- 5.1 While the statutory roles and function of the Committee and Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pension Fund Committee chairing the concurrent meeting.
- 5.2 The process for resolving any differences between the two bodies is set out in the Council's Scheme of Administration and the Board's Constitution.

6. Administration and Management of the Fund

6.1 Chief Financial Officer

- i The Council's Chief Financial Officer is the Officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.
- ii He is responsible for:
 - a) the financial accounting of the Fund,
 - b) the preparation of the Pension Fund Annual Report, and
 - c) being the principal advisor on investment management to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

- 6.2 The day-to-day management of the investment activities of the Fund is managed by the Pension & Investment Team within the Finance Service.

6.3 Chief Officer Human Resources

- i The pension benefits policy oversight and day-to-day administration for the Fund is managed by the Human Resources Shared Services Team.

7. Professional Advisers and External Service Providers

- 7.1 Hymans Robertson has been appointed to act as Actuary to the Fund. The services provided include advice on funding and actuarial valuations.
- 7.2 KPMG is the Independent Investment Consultant employed by the Council to advise the Committee on investment strategy.
- 7.3 The Fund has appointed investment managers who have responsibility for the selection, retention and realisation of individual investments. Where appropriate, they also implement the Committee's policy in relation to corporate socially responsible investment and corporate governance.
- 7.4 Northern Trust is the global custodian for the Fund and is responsible for the safekeeping of the assets including transaction processing and making tax claims.

8. Internal and External Review

- 8.1 The annual financial statement of the Council, including the Fund, is subject to external audit. The external auditors are appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for.
- 8.2 The Council's Audit and Scrutiny Committee oversees the output of the Annual Audit process in relation to the Pension Fund.
- 8.3 The Council provides internal audit arrangements to the Fund both as a tool of management and with direct reporting to the Council's Audit and Scrutiny Committee.

9. Risk Management

- 9.1 The Council has a corporate risk management policy which includes the maintenance and regular review of a risk register.
- 9.2 Risk awareness is embedded into the investment performance management process.

10. Access to Information

- 10.1 Committee papers and minutes are available via the Council Papers website <http://councilpapers.scotborders.gov.uk/>
- 10.2 The Fund's Annual Report and Accounts is available via the Fund website <http://www.scottishborderscouncilpensionfund.org/>. A hard copy of the full version of this report is provided to the scheduled and active admitted bodies of the scheme and a summary of the review is provided to all Fund members.
- 10.3 This Governance Policy and Compliance Statement and all supporting statements and policies are available on the Fund website <http://www.scottishborderscouncilpensionfund.org/>

11. Review and Compliance with Best Practice

- 11.1 This Statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Fund.
- 11.2 The Local Government Pension Scheme (Scotland) Regulations 2018 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The Governance Compliance Statement (**Appendix B**) that demonstrates the Fund's status against these standards is set out in the Annual Report and Accounts for the Fund.

Appendix A

Scottish Borders Council Pension Fund

Scheduled and Admitted Bodies

Scheduled Bodies

- Borders College
- Scottish Borders Council
- Visit Scotland

Admitted Bodies

Active Admitted Bodies

- Amey Community Limited
- BC Consultants
- Gala Youth Project
- Jedburgh Leisure Facilities Trust
- Lothian and Borders Community Justice Authority
- Scottish Borders Housing Association (closed to new members)
- SB Cares LLP
- SB Supports LLP
- LIVE Borders
- CGI

Admitted bodies with Deferred or Retired Members only

- Berwickshire Housing Association
- Heriot Watt (former Scottish College of Textiles)
- Project '80 Council Burnfoot
- Red Cross Housing Association
- Scottish Borders Careers

Appendix B

GOVERNANCE COMPLIANCE STATEMENT

The Pension Fund sets out its governance arrangements within the Governance Policy and Compliance Statement (as amended 16 June 2016).

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund’s compliance with these principles and reflects the changes following the introduction of the Pension Board.

Principle		Full Compliance	Comments
Structure			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the Committee).</p> <p>The Committee comprises of 7 elected members.</p> <p>The Council’s Scheme of Administration sets out the Committee’s remit.</p>
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	<p>The Pensions Board (the Board) formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund’s Board has 8 members, 4 employer representatives and 4 trade union representatives covering all pension fund members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund’s Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The Investment and Performance Sub-Committee (the Sub-Committee) established under the Committee and has remit set out in the Scheme of Administration. This Sub-Committee</p>

Principle		Full Compliance	Comments
			Membership of the Sub-Committee is comprised of the 7 elected members from the Committee and 2 (non-voting) members from the Board.

Principle		Full Compliance	Comments
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to Committee for approval. 2 members from the Board and all members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.

Committee Membership and Representation

A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Board and Committee meets jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Board. The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity.
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June). The Board was established by Council on 2 April 2015. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive

Principle		Full Compliance	Comments
	making process, with or without voting rights.		papers and access meetings in the same way.

Principle		Full Compliance	Comments
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Selection and role of lay members

A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected members this is part of Council's Code of Governance along with Member induction programme. In addition the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within 6 months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.

Voting

A	The policy of individual administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution
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Training/Facility time/Expenses

A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
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Principle		Full Compliance	Comments
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.
Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meeting of the Committee and Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits	Yes	Investment Sub-Committee meets every four months in between main joint Committee/Board meetings.
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	Pension Board formally provides for the stakeholders engagement.
Access			
A	Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members detailed in Scheme of Administration.
Scope			

Principle		Full Compliance	Comments
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out that the Committee as having a remit which covers all matters relating the Council’s role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.

Principle		Full Compliance	Comments
Publicity			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	Scottish Borders Council Pension Fund has a standalone website with all governance documents and fund information. A link is provided to Minutes and Public papers available via Council website.

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2010 1.0	Creation of Governance Statement	24 February 2010	L Mirley
2010 1.1	Final Draft for Pension Fund Sub-Committee	2 March 2010	L Mirley
2010 2.0	Sub-Committee Approved Version	11 March 2010	L Mirley
2011 1.0	Final Draft for Pension Fund Sub-Committee and Annual Report	30 August 2011	L Mirley
2012 1.0	Updated for amendment to Scheme of Administration and update of Pension Fund Annual Report and Accounts 2011/12	12 June 2012	L Mirley
2013 1.0	Final Draft to reflect proposed changes to Scheme of Administration	18 June 2013	L Mirley
2013 2.0	PFC approved version	19 June 2013	K Robb
2014 1.0	Final Draft for Pension Fund Committee and Annual report.	17 June 2014	K Robb
2015 1.0	Final Draft for Pension Fund Committee updated to reflect the introduction of Pension Boards	1 June 2015	L Mirley
2016 1.0	Final draft for Pension Fund Committee updated to reflect post implementation of Pension Board	05 May 2016	K Robb
2017 1.0	Final draft for Pension Fund Committee updated to reflect Pension Boards fully	21 March 2017	K Robb
2018 1.0	Final draft for Pension Fund Committee updated to reflect website	14 June 2018	K Robb
2019.1	Final draft for Pension Fund Committee updated to reflect changes in governing legislation and new actuary	13 June 2019	K Robb

You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Treasury Team can also give information on other language translations as well as providing additional copies.

Contact us at Pension and Investment Team, Council HQ, Newtown St Boswells, TD6 0SA
01835 825249, t&cteam@scotborders.gov.uk

PENSION ADMINISTRATION PERFORMANCE 2018/19

Report by Service Director HR and Communications

**JOINT MEETING OF PENSION FUND COMMITTEE AND
PENSION BOARD**

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the Pensions Administration Performance for 2018/19 and requests the Committee's approval of its inclusion in the Annual Report for the Fund.**
- 1.2 **Appendix 1** contains the Pensions Administration Performance for 2018/19 as it will be included in the Fund's Annual Report and Accounts.
- 1.3 During 2018/19 there was a reduction in the payments being made on time, the three payments that were late were all received within 4 working days of the due date.
- 1.4 Performance has returned to the expected high standard after a challenging period in the previous year. The new staff members in the team have much more experience of the complexities of Pensions legislation and Scottish Borders Council are again providing information in the expected timely manner.
- 1.5 The Annual Benefit Statements were issued in accordance with the 31 August deadline in all instances.
- 1.6 There was another successful Employer Liaison Meeting held during 2018/19 and agreement reached that this would be a useful event to hold on an annual basis, which will be scheduled in due course.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee notes the Pension Administration Performance for 2018/19 as set out in Appendix 1 and approves its inclusion in the Pension Fund Annual Report and Accounts 2018/19.**

3 BACKGROUND

- 3.1 It is a requirement of the current LGPS Regulations and best practice that the Pension Fund maintains a Pensions Administration Strategy. At the joint meeting of the Committee and Board on 13 September 2018 the latest version of the Pension Administration Strategy for the Fund was approved.
- 3.2 In accordance with the Pension Administration Strategy a number of administration function performance measures were introduced to evaluate the performance of both the Fund and Employers.
- 3.3 A further requirement is that the performance against the Strategy is reported in the annual Report and Accounts for the Fund.

4 PENSIONS ADMINISTRATION PERFORMANCE 2018/19

- 4.1 **Appendix 1** contains the Pensions Administration Performance Report for 2018/19 as it will be included in the Fund's Annual Report and Accounts.
- 4.2 Performance in general has returned to the level that is expected following the drop in performance levels reported in 2017/18. The new staff members in the team have much more experience of the complexities of Pensions legislation. Scottish Borders Council, our largest employer body, are again providing information in the expected timely manner with information on Starters, Leavers and Changes being received on a monthly basis.
- 4.3 The Pensions Team were able to comply with the legislative requirement to issue all benefit statements, to both Active and Deferred scheme members, and did so by the 31 August deadline. There were 6,605 statements issued this year.
- 4.4 During 2018/19 HR Shared Services recorded 3,323 instances where contact was made with the team to query information relating to their Pension, this is a significant increase compared to previous years. In 99.64% of these instances a final response was provided to the individual, be this in writing or face to face, within the 5 target days, with the vast majority being provided on the same day. There were a further 232 queries related to Annual Benefit Statement, in 99.57% (1 query) of these instances the 20 day target for responding was met.
- 4.5 **Employer Performance Measures**
During 2018/19 there were three instances where payments were received late. The payments that were made after the target date were all received within a maximum of 4 calendar days. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.
- 4.6 **Administering Authority Performance Measures**
The key performance targets are set out in the **Appendix 1**. The performance achieved this year was very similar to the previous reporting year. The processing of Transfers is an area that we continue to look to make improvements towards the 20 day target we have set.
- 4.7 During 2018/19 an Employer Liaison meeting was held, to discuss the changes to the year end reporting for the scheme and to discuss any operational challenges that the bodies were facing. This was a successful meeting and was beneficial to all parties. It was agreed that this will continue to be an annual event and it would be helpful if this was timed

around February/March, where the Fund could advise employers of changes for the coming year and remind them of their responsibility for the year end.

- 4.8 During 2018/19, 40,416 payments were processed, an increase from 38,765 in 2017/18, to pensioners for a total of £17.014m. In addition to this, 134 payments were also processed, an increase from 129 payments in 2017/18, to pensioners who now reside overseas for a total of £70,117, these payments are processed via Western Union, providing pensioners with a cost effective means of transferring a sterling pension payment into the appropriate local currency.

4.9 **Employer Contribution Rates**

The following table outlines the employer contribution rates that are effective from 1st April 2018 in line with the previous triennial valuation and/or reports received from the Fund Actuary on the admission of new Bodies.

Employer	Employer Contribution %
Visit Scotland	18.00
Borders College	18.00
Scottish Borders Council	18.00
SB Cares	18.00
AMEY	18.00
CGI	21.10
Live Borders	18.00
Jedburgh Leisure Facilities Trust	18.00
Scottish Borders Housing Association	20.30

5 IMPLICATIONS

5.1 **Financial**

There are no financial implications relating to this report.

5.2 **Risk and Mitigations**

This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks regarding the administration of the Pension Fund have been identified are included on the Pension Fund and HR risk registers, being managed and controlled following the Corporate Risk Management Framework.

5.3 **Equalities**

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report.

5.4 **Acting Sustainably**

There are no direct economic, social or environmental issues with this report which could affect the Council’s sustainability.

5.5 Carbon Management

No effect on carbon emissions are anticipated from the recommendation of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to either the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk and the Clerk to the Council have been consulted and any comments have been incorporated into the final report.

Approved by

Clair Hepburn
Service Director HR and Communications

Signature

Author(s)

Name	Designation and Contact Number
Ian Angus	HR Shared Services Manager 01835 826696

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Board 13
September 2018

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Contact us at Ian Angus, HR Shared Services Manager, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA; Tel: 01835 826696; Fax: 01835 825011; E-mail ianangus@scotborders.gov.uk.

APPENDIX 1

PENSION ADMINISTRATION PERFORMANCE 2018/19

In accordance with the Pension Administration Strategy, approved 13 September 2018, the following performance measures have been compared against the targets set within the said strategy document.

Employer Performance Measures

Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	637	100%
Retirement info – at least 20 working days before	227	100%
Early leaver notification – within 20 working days	536	100%
Death in service notification – within 10 working days	12	100%
Query responses – within 5 working days	3,323	99.64%
Year-end queries – within 20 working days	232	99.57%

During 2018/19 Scottish Borders Council implemented a new ERP system, including a payroll module, this led to a marked reduction in performance over this period. As can be demonstrated by the above the performance standards are back to the previous high standard with information being passed to the Pensions Administration Team in accordance with the set standards in all instances.

Contribution Payments

The following tables compare the date contribution payments are received against the target date, of 19th of the month, for each of the Scheduled and Active Admitted Bodies.

Employer Body	By Target Date	Late	% On Time
Scottish Borders Council	12	-	100%
Visit Scotland	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	12	-	100%
Jedburgh Leisure Facilities Trust	9	3	75%
Borders Sport and Leisure Trust	12	-	100%
AMEY Community Limited	12	-	100%
SB Cares	12	-	100%
CGI	12	-	100%

The payments that were made after the target date were all received within a maximum of 4 calendar days. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.

Administering Authority Performance Measures

Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	98	20 days	47.96%
Estimates – Transfer Out	96	20 days	56.25%
Estimate – All Other	1,036	10 days	83.01%

The Pensions Team and members of the HR Shared Services Helpdesk record when they have had contact in relation to Pension be this by email, in person or telephone and the headline reason of the enquiry. The following table summarises the queries received during 2018/19.

Type of Query	Volume	Target	%age Met
Admitted/Scheduled Bodies Employer Queries	118	5 days	99.15%
Advice on AVC applications	61	5 days	98.36%
Advice on Nominations and/or Death Grant	63	5 days	96.83%
Advice on Options at Retirement	162	5 days	100%
Annual Benefit Statement Queries	232	20 days	99.57%
Assistance with form completion e.g. retirement declaration	118	5 days	100%
Change of Address/Bank Details	443	5 days	100%
Divorce	15	5 days	100%
DWP requesting details of Pensioner Payments	43	5 days	100%
Enquiries in relation to Deceased Pensioners	728	5 days	99.45%
ER/VS general advice	21	5 days	100%
Flexible Retirement	98	5 days	100%
General advice	573	5 days	100%
Internal forms requesting details of Pensioner Payments	55	5 days	100%
Opting In to LGPS	67	5 days	100%
Opting Out of LGPS	84	5 days	98.81%
Pension Payment queries including tax issues	175	5 days	100%
Refunds Enquiry	83	5 days	98.80%
Retiral Enquiry	261	5 days	99.23%
Service Breaks	7	5 days	100%
Transfer In Enquiry	92	5 days	100%
Transfer Out Enquiry	56	5 days	100%
Total	3,555		

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	1 meeting
Benefit Statements	by end of August	31 st August 2018

The fifth liaison meeting with all Admitted and Scheduled Bodies was held during 2018/19 and covering the changes that had been made to the annual reporting for the 2018/19 year end and affording the employers the chance to asks questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

Key Administration Tasks

Task	Total received
New entrants	637
Early leavers	536
Retirements	227
Deaths in service	12
Deaths in deferment	6
Deaths in retirement	91
New Widows(ers), Child Pensions	47
Estimates	1,036
Pension credit members	-

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TRAINING PLAN 2019/20

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report compares the actual 2018/19 attendance for Pension Fund Committee and Board Members to the requirements detailed in the current Training Policy approved in June 2017 and proposes key areas of training for 2019/20 in-line with the policy and based on the Skills Knowledge assessment recently undertaken.**
- 1.2 In line with this Policy, the Pension Fund agreed to undertake an annual knowledge and skills self-assessment to identify the key areas for the future years training plan.
- 1.3 The Training Knowledge and Skills Assessments were undertaken in April 2019 and summarised in Appendix 2.
- 1.4 The proposed Training areas for 2019/20 are summarised in para 6.2 for approval and members are strongly encouraged to actively participate in all training events to demonstrate their commitment to enhancing the governance of the Pension fund and to support effective decision making.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Joint Pension Fund Committee and Board:**
 - (a) **Approves the Training Policy in Appendix 1**
 - (b) **Notes the outcome of the 2018/19 training programme and the attendance levels for training and meetings**
 - (c) **Notes the outcome of the Knowledge and Skills Self-Assessment for 2019/20; and**
 - (b) **Approves the Training areas for 2019/20 set out in para 6.2 and agrees that all members should prioritise attendance at training events wherever practicable.**

3 BACKGROUND

- 3.1 At the June 2017 joint meeting of the Pension Fund Committee and Board, the Training Policy (the policy) was updated and agreed. This policy has been updated to reflect change in contact details and a copy of the policy is contained in Appendix 1.
- 3.2 The best practice guidance indicates that the annual report should include an assessment of the performance of the Committee in terms of:
- (a) Attainment of the standards set down in CIPFFA’s knowledge and skills framework, and
 - (b) Achievement of required training outcomes
- 3.3 One of the key elements of the Policy is that all Members of the Pension Fund Committee and the Board commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision-making role. Officers maintain a log on behalf of members to demonstrate the training activities.

4 TRAINING POLICY ANNUAL UPDATE

- 4.1 The 2018/19 training programme approved at the June 2018 Pension Fund Committee and Board covered the following:
- (a) Financial markets and investment products
 - (b) Role of custodian
 - (c) General Pension Fund Regulatory environment
 - (d) LGPS Benefits structure
- 4.2 All training events were open to members of the Pension Fund Committee and Pension Fund Board.
- 4.3 The table over shows the five training events offered and areas covered. All areas identified in June 2018 were covered. The Regulatory environment, relating to the topics, was highlighted and incorporated within the individual topics covered.

Organiser	Training Provided
SBC Internal - LGT	Alternative investment products
SBC Internal – KPMG	Infrastructure Debt investment products
Local Government Pension Scheme (Scot) Officers Group	Investment fee transparency, LPGS Regulation, Climate change, LGPS Benefits, GDPR, Actuarial valuations
Local Government Chronical	Investment Strategy, Investment issues, Fiduciary duties, LGPS structure consultation
Pension & Lifetime Savings Association	Investment governance and investments

- 4.4 The training policy requires Members of the Pension Fund Committee and Pension Fund Board to attend at least two training sessions a year. The table below shows the attendance rates for both:

No of events	Committee Members		Board Members	
	%	Number	%	Numbers
5	28.5	2	12.5	1
4	14.3	1	25.0	2
3	14.3	1	25.0	2
2	14.3	1	25.0	2
Less than 2	28.6	2	12.5	1

- 4.5 71.4% Members of the Pension Fund Committee and 87.5% of the Pension Fund Board have fully met the training requirements. Members are recommended to prioritise their attendance at training sessions wherever possible to ensure they can participate in the complicated activities of the committee with the benefit of detailed knowledge imparted through these sessions.
- 4.6 The training policy introduced in June 2017 the additional requirement for all Members of the Pension Fund Committee and Pension Fund Board to fully complete the Pension Regulators Trustees Toolkit within 6 months of taking up the role. The toolkit has been completed by all members of the Committee and 6 members of the Board. The remaining Board members have recently joined the Board and have commenced the toolkit.
- 4.7 Members are also required to attend at least two of the Joint Pension Fund Committee and Pension Fund Board meetings per year. The table below shows the attendance rates for both the Pension Fund Committee and Pension Fund Board Members.

No of events	Committee Members		Board Members	
	%	Number	%	Numbers
4	28.6	2	25.0	2
3	42.8	3	37.5	3
2	0	0	0	0
Less than 2	28.6	2	37.5	3

- 4.8 71.4% Members of the Pension Fund Committee and 62.5% of the Pension Fund Board have met the attendance requirement. Members of the Board and Committee have been reminded of their attendance requirements and the dates for the 2019/20 meetings have all been circulated.

5 TRAINING NEEDS ANALYSIS

- 5.1 To ensure training needs are met for all members of the Pension Fund Committee and Board, a knowledge and skills assessment questionnaire has been completed by them. An analysis of this is contained in Appendix 2 for those returns completed. This information has been used to inform the future training programme.

- 5.2 The completed knowledge and skills assessment returns for 2018 have a decline from the 2017 returns in all areas. This is due to the turnover of two Board Members and 1 Committee Member during the year.

6 TRAINING PROGRAMME

- 6.1 The areas highlighted for further training, from the returned skills assessments, are shown in the table below. These will form the training requests to the development of the next IGG Group training event.

Topic	Training Objective
Financial Markets and Investment Products	To increase understanding of current markets and investment products and also highlight new investment products and markets
Investment concepts and terminology	To increase understanding of investments concepts and improve knowledge of investment terminology
Role of Custodian	To increase knowledge and understanding of the role of custodian.
General Pension Fund Regulatory environment	To increase general knowledge and awareness of the regulatory environment for general Pensions.
LGPS Benefits Structure	To increase and understanding of the benefits structure of the LGPS Fund.

- 6.2 The Local Government Pension Scheme (Scot) Officers Group have arranged the 2019 training event for 3rd September 2019 and this will cover many of the areas identified above. Baillie Gifford are also hosting an Investment and training event on 9-10 October.
- 6.3 The formal training events will also be supplemented by the continuation of the informal meetings prior to the Pension Fund Investment and Performance Committee meetings to allow members to be properly briefed by officers and the independent investment adviser on relevant matters prior to the meeting with the Fund Manager.
- 6.4 Additional external training opportunities that occur during the year will augment the proposed training programme. The Pension and Investment Manager will highlight these to the Pension Fund Committee and the Board for agreement on relevance and for the nominations of attendees.

7 IMPLICATIONS

7.1 Financial

The cost of the delivery of the training programme will be borne by the Pension Fund and a budget will be developed to provide an annual amount to support ongoing training needs.

7.2 Risk and Mitigations

The development of a Training Policy and associated training plan and reporting mechanism is part of the framework to ensure effective decision making for the Pension Fund.

7.3 Equalities

It is anticipated that there is no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report as this policy applies to all elected members and observers of the Committee equally.

7.4 Acting Sustainably

There are no significant impacts on the economy, community or environment arising from the proposals contained in this report.

7.5 Carbon Management

There are no significant effects on carbon emissions arising from the proposals contained in this report.

7.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

7.7 Changes to Scheme of Administration or Scheme of Delegation

There are no changes to be made to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals contained in this report.

8 CONSULTATION

8.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted and their comments have been incorporated into the final report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: 14 June Pension Fund Committee and Pension Fund Board

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SCOTTISH BORDERS COUNCIL PENSION FUND TRAINING POLICY

Finance
Chief Executives Department
Version: Final Approved 13 June 2019

1. Introduction

- 1.1 This training policy documents the Scottish Borders Council Pension Fund (the Fund) responsibilities in relation to members and observer members of the Pension Fund Committee and Board.
- 1.2 The policy has been drawn up:
 - i To identify the level of knowledge and skills required by members, and
 - ii To outline the training arrangements for the Committee and its members
- 1.3 This version of the Training Policy was approved by the Pension Fund Committee of Scottish Borders Council on 13 June 2019.
- 1.4 For the avoidance of any doubt, the term members in relation to this Policy will refer to all members of the Pension Board and the Pension Fund Committee irrespective of voting rights, as set out in the amendment to the Scheme of Administration agreed by Council on 2 April 2015.

2. Myners Principles

- 2.1 The desirability of pension fund decision making being overseen by persons with the right skills and expertise was recognised in 2001 in the UK Government's *Institutional Investment in the United Kingdom: A Review*, undertaken by Paul Myners and reaffirmed in the *Updating the Myne's Principles: A Response to Consultation* in October 2008.
- 2.2 The revised Myners principles following the 2008 review are the accepted code of practice applying to local government pension funds throughout the United Kingdom and these principles apply to all pension committee members (elected and other appointments) and officers.
- 2.3 The first Myners principle explicitly states that:
 - i Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
 - ii Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
- 2.4 The best practice guidance from CIPFA in relation to demonstrating this first principle indicates that *"the committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals in relation to the scope of its work and the pensions issues that are most relevant.The adoption of a training plan and an annual update of training and development needs (including monitoring progress made) would represent good practice in demonstrating that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and*

progress made.”¹

- 2.5 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 requires administering authorities to report the extent of compliance with this first Myners principle and the Fund does so as part of the Statement of Investment Principles.

3. Governance Compliance

- 3.1 Guidance on governance matters and training has been issued between 2009 and 2014 by the Pensions Regulator, CIPFA and the Scottish Public Pensions Agency. This training policy has been drafted in line with the collective guidance.

- 3.2 To underline the Fund’s commitment to the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, the following policy statement has been adopted:

“The Council recognises the importance of ensuring that all staff and members charged with the financial administration and decision making with regard to the Scottish Borders Council Pension Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide and arrange training for staff and members of the Pension Fund Committee and Board to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills”

- 3.3 In addition, the Scottish Public Pensions Agency (SPPA) issued guidance in relation to the Governance Compliance Statement in April 2011, establishing the best practice standard that administering authorities are required to measure themselves against. The standards established for training are as follows:

- i That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
- ii That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
- iii That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

4. Training

- 4.1 On joining the Committee or Board, members must attend a training session to understand the details of roles and responsibilities to allow them to participate in decision making or scrutiny of complex pension issues.
- 4.2 All members must within 6 months of joining the Committee or Board complete the Pension Regulator Trustee Toolkit.

¹ CIPFA: Investment decision making and disclosure in the Local Government Pension Scheme. A Guide to the Application of the Myners Principles.

- 4.3 An Induction File will also be provided to members when they start with the Committee or Board, and it will contain key documents relevant to the Fund and other information that is deemed useful. The members will be expected to use this information and have read the key documents.
- 4.4 A training needs analysis will be undertaken for each member of the Committee and Board and this will be used to inform annual training plans. This analysis will be repeated annually to monitor progress and inform the updating of the training plans.
- 4.5 Annual training plans will be prepared for the Committee and members that will be commensurate with their respective roles and responsibilities and will be aligned to the CIPFA Skills and Knowledge Framework contained in **Appendix A**.
- 4.6 A training log will be retained for each member in line with the best practice standard.
- 4.7 For the Pension Fund Investment and Performance Sub Committee an informal meeting of the Sub Committee with the Fund's external Investment Adviser immediately prior to the formal meeting will be held to enable all members of the Sub Committee to be appropriately briefed and better prepared to question the Fund Managers in depth following their presentation.
- 4.8 As part of their commitment to good scheme governance, Members, will be expected to attend at least two Committee meetings each year and two training sessions each year. The two training sessions are over and above any training given at the pre-meeting to the Pension Fund Investment and Performance Sub-Committee.
- 4.9 Training Opportunities for the Committee and Board members will include the following events:
- i Internal training events;
 - ii Seminars and conferences offered by industry wide bodies, e.g. the LAPF annual conference;
 - iii Seminars and training events offered by the Fund's investment managers and advisors;
 - iv Online training; and
 - v Professional reading.
- 4.10 The Pension Regulator online toolkit ([tpr.gov.uk/public-service schemes](http://tpr.gov.uk/public-service-schemes)) is recommended for all Committee and Board Members and completion of modules will be noted in the training register.
- 4.11 A record of attendance at meetings and training events will be maintained and published in the Pension Fund Annual Report and Accounts. Officers will identify appropriate training opportunities and bring these to the attention of the Committee and Board.
- 4.12

5. Reporting and Review Arrangements

- 5.1 CIPFA has recommended as good practice that the Pension Fund Annual Report includes a disclosure as to how the CIPFA Knowledge and Skills Framework has been applied for the Fund, what assessment of training needs has been undertaken and what training has been delivered against the identified training needs.
- 5.2 The Annual Training Plans will be presented to the Committee and Board for review and agreement.

6. Reimbursement of Expenses

- 6.1 Councillors are remunerated for their expenses through the local government members' responsibility allowances scheme. Other members can apply for reimbursement of reasonable expenses such as travel costs which have been incurred in relation to agreed training.

CIPFA Knowledge and Skills Framework

1. The training framework is based on the CIPFA Knowledge and Skills Framework guidance which identifies six areas of knowledge and skills required as core technical requirements of those working in public sector pensions finance.
2. The six areas are:
 - i Pension legislative and governance context
 - ii Pensions accounting and auditing standards
 - iii Financial services procurement and relationship management
 - iv Investment performance and risk management
 - v Financial markets and products knowledge
 - vi Actuarial methods, standards and practices.
3. The framework will be used to assess knowledge and identify future training needs to ensure effective decision-making.
4. The levels of knowledge required is categorised as follows:
 - 1 In Depth
 - 2 Understanding
 - 3 Awareness
5. The Framework and Knowledge requirements are summarised as follows:

Training Framework	Members Knowledge Requirement
Pension legislative and governance context <ul style="list-style-type: none"> • General and scheme pension legislation • Scheme Governance • Pension regulators and advisors • Legislative framework 	3
Pensions accounting and auditing <ul style="list-style-type: none"> • Audit and accounting regulations and requirement 	3
Financial Services procurement and relationship management <ul style="list-style-type: none"> • Understanding public procurement • Supplier risk management 	2
Investment performance and risk management <ul style="list-style-type: none"> • Fund performance • Performance of Advisers • Performance of Committees • Performance of Support Services 	2
Financial markets and product knowledge <ul style="list-style-type: none"> • Investment strategy • Financial markets 	2
Actuarial methods, standards and practices <ul style="list-style-type: none"> • Valuations • Bulk Transfers 	2

VERSION CONTROL TABLE

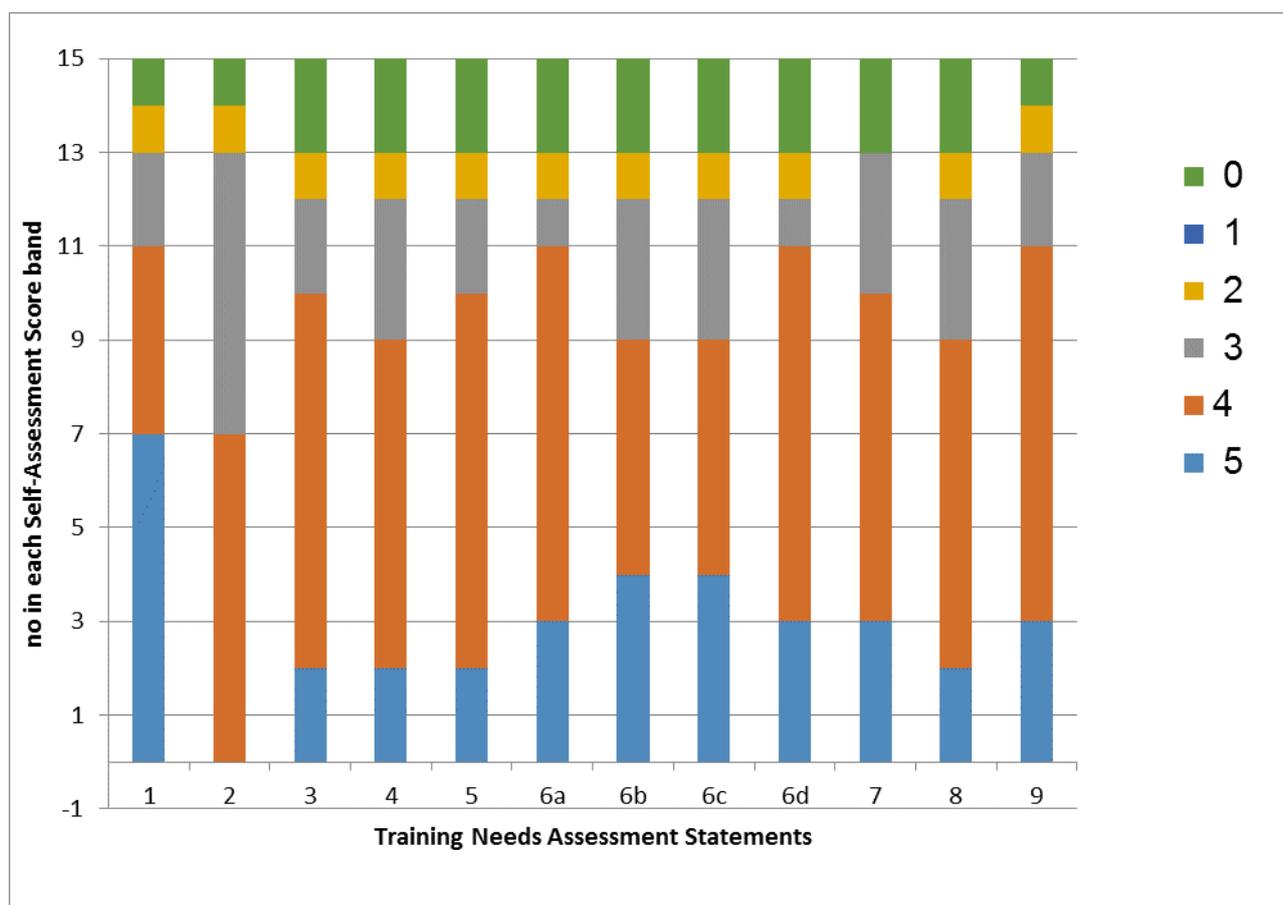
Version	Nature of Amendment	Date of Change	Author
2012 1.0	Creation of Training Policy	30 August 2012	Lynn Mirley
2012 2.0	Approved by Pension Fund Committee	13 September 2012	Lynn Mirley
2013 1.0	Updated for changes to Scheme of Administration	11 June 2013	Lynn Mirley
2013.2	Approved by Pension Fund Committee	18 June 2013	Kirsty Robb
2015.1	Update for revised Governance structure	18 June 2015	Kirsty Robb
2017.1	Inclusion of mandatory completion of Pension Regulator Trustee Toolkit	22 June 2017	Kirsty Robb
2019.1	Change to approval date	13 June 2019	Kirsty Robb

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APPENDIX 2

Knowledge & Skills Assessment – 2018



Training Needs Assessment Statements

Statement	Members Average Score
1 Understanding of responsibilities as a member of the Pension Fund Committee	3.93
2 Knowledge of the financial markets and investment products	3.20
3 Confidence with Pension Fund investment concepts and terminology	3.33
4 Understanding of the regulatory environment for Pension Funds in general	3.27
5 Understanding of the regulatory environment for Local Government Pension Scheme (LGPS) Pension Funds	3.33
6 Awareness of the following key documents:	
a) Governance Statement	3.47
b) Statement of Investment Principles (SIP)	3.40
c) Funding Strategy Statement (FSS)	3.40
d) Annual Report and Accounts for the Pension Fund	3.47
7 Understanding of the LGPS Benefits structure	3.47
8 Understanding of the role of the Global Custodian	3.27
9 Understanding of the role of the Actuary	3.67

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BUSINESS PLAN 2019/20 – 2021/22

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the Pension Fund Business Plan 2019/20 – 2021/22.**
- 1.2 Best practice suggests that having a business plan for the pension fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1 contains the first Pension Fund Business Plan, covering the period 2019/20 – 2021/22.
- 1.3 The Business Plan 2019/20 – 2021/22 identifies an Action Plan that will be delivered during the next three years to support the aims and objectives of the Pension Fund.

2 STATUS OF REPORT

- 2.1 Due to the timescales of completing the information for inclusion in the Business Plan this report is currently being consulted on. Comments received will be reported at the meeting.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Business Plan 2019/20 – 2021/22 as set out in Appendix 1 is approved.**

4 BACKGROUND

- 4.1 Local Government Pension Scheme (LGPS) administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the "Myners Principles" which are set out in the Statement of investment principles elsewhere on the committee agenda.
- 4.2 Best practice suggests that having a business plan for the Pension Fund is a good way of demonstrating compliance with the "Myners Principle" that relates to effective decision making.

5 PENSION FUND BUSINESS PLAN 2019/20- 2021/22

- 5.1 Appendix 1 contains the proposed Pension Fund Business Plan 2019/20 – 2021/22 (the Business Plan).
- 5.2 The Business Plan has been developed by officers in Human Resources and Finance and uses the template developed for the Council, with some adjustments to meet the specific needs of the Pension Fund.
- 5.3 The sections of the Business Plan are:
 - (a) Overview of the Pension Fund;
 - (b) A summary of what must be done;
 - (c) A summary of successes and areas for improvement;
 - (d) The Fund's aims and objectives;
 - (e) Management of Risk Summary;
 - (f) Key stakeholders;
 - (g) An overview of the Fund's resources;
 - (h) How Performance is managed;
 - (i) The Fund's Action Plan, including performance indicators for 2019/20 – 2021/22.
- 5.4 The Action Plan is split into three objectives which support the Strategic Aims and Objectives of the Fund. These are:
 - (a) Set levels of employer contributions 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 such a way that produces levels of employer contribution that are as stable as possible.
 - (b) Deliver a High Quality Pension Service to Members.
 - (c) Ensure that Scottish Borders Pension Fund is managed effectively, transparently and in compliance with legal requirements.

6 IMPLICATIONS

6.1 Financial

There are no direct financial implications arising from this report, The actions required by the Business Plan may have financial implications and these will be reported as they arise.

6.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and ensure effective decision making.

6.3 Equalities

The Business Plan identifies where there is a potential for the requirement for an Equalities Impact Assessment, and this will be undertaken at the time of undertaking the work proposed in the Plan.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this reports which would affect the Council’s sustainability.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council is being consulted on the report and their comments will be reported at the meeting.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension and Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Board, 30 November 2018

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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.

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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

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	<p>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;</p> <p>Mitigating Actions: Seek to input into any of the legislative change through active membership of COSLA.</p>	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

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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

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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	•			

Scottish Borders Council Pension Fund

Draft Business Plan 2019/20 – 2021/22

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			

Scottish Borders Council Pension Fund

Draft Business Plan 2019/20 – 2021/22

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	•			

Scottish Borders Council Pension Fund

Draft Business Plan 2019/20 – 2021/22

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		•		

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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			

Scottish Borders Council Pension Fund

Draft Business Plan 2019/20 – 2021/22

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	•			

Scottish Borders Council Pension Fund

Draft Business Plan 2019/20 – 2021/22

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

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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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RISK REGISTER UPDATE

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an updated full register and proposed management actions to mitigate the risks.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A full risk workshop was held on 15 April 2019 with Officers from relevant Departments to review and update the full risk register. The output of this is shown in Appendix 1.
- 1.4 A summary of the changes made during the review are detail in para 4.3. No new risks were identified during the review.
- 1.5 In line with the Council's Risk Management Policy (2018) a paper to be presented at the September 2019 meeting will report progress on the management actions and present any new risks for consideration.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Agrees the updated Full Risk register as contained in Appendix 1; and**
 - (b) **Agrees to an update on progress of management actions to be presented in September 2019.**

3 BACKGROUND

- 3.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in the "Risk Management process guide" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 3.3 The Pension Fund's Business Plan 2019/20 – 2021/22, to be presented for approval on 13 June 2019, sets out the aims and objectives of the Pension Fund. These aims and objectives were fully considered and recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

Level of risk	Risk score
RED	High – Risk Score Range 15-25
AMBER	Medium – Risk Score Range 6 – 12
GREEN	Low – Risk Score Range 1 - 5

- 3.5 To comply with the Council's revised policy of risk management and best practice, a Risk Management reporting cycle was developed around the performance and business plan reporting of the Pension Fund. As a result the following cycle of reporting was adopted:
- | | |
|-------------|---|
| Quarterly | <ul style="list-style-type: none">Quarterly Investment Performance Report;Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;Update on progress of risk management action delivery. |
| Bi-Annually | <ul style="list-style-type: none">Mid-Year Progress report on Business Plan Actions;Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;Update on progress of risk management action delivery. |
| Annually | <ul style="list-style-type: none">Annual Governance Meeting with Annual Report and Policy/Strategy Performance Reports;Annual reporting on progress with Business Plan and approval of updated Business Plan;Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks. |

4 RISK REGISTER UPDATE

- 4.1 A full risk workshop was undertaken on 15 April 2019 by Officers from the Pension and Investment Team and Human Resources Shared Services in order to ensure that the risk register's contents were still relevant and up-to-date. The outcome of the workshop is detailed in Appendix 1.
- 4.2 There are 44 risks identified in the register of which eight are red risks prior the application of internal controls. The current identified controls reduce the red risks to one. There are 16 risks with identified management actions which will improve and add to the current controls.
- 4.3 The following risks have been updated from the previous risk register

Risk no.	Update
2.3	New treat – development of cessation policy
3.2	New treat – annual monitoring and reporting undertaken
3.5	New treat – implementation of Competency Framework to all staff.
4.1	Changed to tolerate following completion of cashflow review undertaken during 2018/19
4.5	New treat – to ensure awareness of new or revised guidance from The Pension Regulator or Government around “freedom of choice”
4.6	Changed to tolerate following completion of cashflow review undertaken during 2018/19
5.3	New treat – full business continuity review to be undertaken
5.5	Changed to tolerate following completion of GDPR training
6.1	New treat – Implementation of Competency Framework to all staff
6.3	New treat – Implementation of Competency Framework to all staff
7.6	New treat – Responsible investment policy monitoring arrangements to be implemented.

- 4.4 No new risks were identified during the Risk Review.
- 4.5 The progress of the individual management actions identified in the risk register, detailed in Appendix 1, will be reported on a quarterly basis at future meetings.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

The purpose of providing the update to the Committee and Board is to improve the risk management framework for the Pension Fund and demonstrate that the Members of the Pension Fund Committee and the Pension Board understand the risks faced and how it is proposed to manage, mitigate or tolerate these risks. The Additional Proposed Actions as contained in Appendix 1, and recommended for approval by the Committee and Board in this report, are designed to directly enhance the management of risks.

5.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration of Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are being consulted and their comments will be included in the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Pension Fund Committee and Pension Board 7 March 2019

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension & Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email: t&cteam@scotborders.gov.uk

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
1.1	Asset & Investment	Failure to achieve the target investment returns set out in the Statement of Investment Principles over the longer term may lead to significant increased employer contribution rates and costs of implementing changes to the investment strategy.	Inappropriate strategic asset allocation for Fund's requirements; Inappropriate investment approaches within asset class; Underperformance/ negative investment returns from investments under management; Significant and sustained market and economic events creating adverse movements in valuations; Investment Strategy inconsistent with Funding Strategy.	Significant rises in the employer contributions; Costs involved in implementing changes to investment strategy; Funding Deficit for Fund.	Ongoing	Pension Fund Committee/ Chief Financial Officer	4	3	12	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Actuary reports included element of prudence. TREAT - Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.	Effective	4	3	12
1.2	Asset & Investment	Failure of Fund's Custodian may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Inaccurate recording of asset transactions; Financial or internal controls fail to prevent fraud or misappropriation; Organisational failure resulting in closure of business/cessation of trading.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fund Committee/ Chief Financial Officer	4	3	12	Robust procurement processes around the custodian; Reconciliation of Custodian to Investment Manager Records; Monitor custodian performance and credit rating; Monitoring of financial media; Covered by legal contract; Regulated by FCA, assets not on custodian balance sheet; Receipt of annual controls reports from Custodian's External Auditors; Annual External Audit Process; Legal recourse within contracts. Annual reviews undertaken with Custodian and Investment manger TOLERATE	Effective	2	2	4
1.3	Asset & Investment	Failure of one of the Fund's Investment Manager may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Investment Manager's framework of controls does not prevent fraud, misappropriation or erroneous investment activity; Investment Manager's business model fails.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fund Committee/ Chief Financial Officer	5	3	15	Robust procurement processes around the managers; Engagement with Investment Adviser in relation to monitoring external environment in respect of the individual managers; Reconciliation of Custodian to Investment Manager Records; Diversification of investment managers; Continual monitoring of investment performance; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Regulated by FCA; Receipt of annual controls reports from Investment Managers' External Auditors; Legal recourse within contracts TOLERATE	Effective	3	3	9

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Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
1.4	Asset & Investment	Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels	Committee ignores advice provided by expert adviser; External adviser provides inappropriate/inaccurate/ insufficient advice to Committee/Officers.	Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates.	Ongoing	Pension Fund Committee/ Chief Financial Officer	5	4	20	Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role TREAT Ongoing training for elected members of the Pension Board and Committee	Effective	4	2	8
1.5	Asset & Investment	Failure to manage Currency risk may lead to an inability to maximise the returns from investments with the agreed risk parameters resulting in an adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions impacting on currency rates	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Ongoing	Chief Financial Officer	3	4	12	Follow advice of external advisers that fund should take long term view of currency fluctuations; TOLERATE	Partially Effective	3	3	9
Page 128 1.6	Asset & Investment	Failure to react to major changes in market/economic conditions may lead to an inability to manage the fund properly resulting in significant adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Ongoing	Chief Financial Officer	4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Diversification of asset classes and investment managers; Scrutiny of Strategic Asset Allocation and Investment performance by Investment & Performance Sub-Committee; TOLERATE	Effective	3	3	9
1.7	Asset & Investment	Underperformance of Investment Manager(s) may lead to financial losses for the Fund resulting in the inability to achieve the target investment returns set out in the Statement of Investment Principles which over the longer term may lead to significant increased employer contribution rates and costs of implementing changes in investment managers.	Underperformance/ negative returns from investments under management as a result of individual management approach/actions.	Financial loss which may lead to significant increased employer contribution rates and costs of changing investment managers	Ongoing	Corporate Finance Manager/ Pension Fund Committee/ Chief Financial Officer	3	4	12	Robust procurement processes around the managers placed on short lists; Diversification of investment managers; Continual monitoring of investment performance against benchmark, targets and tolerance; Engagement with Investment Adviser in relation to monitoring external environment and setting benchmarks in respect of the individual investment managers; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Monitoring of financial media; Immediate action would be considered and removal of funds to Transition Manager. TOLERATE	Effective	2	3	6

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
1.8	Asset & Investment	Insufficient scrutiny of manager mandates and terms of business may lead to a failure to manage the Fund properly resulting in inappropriate fee levels and other costs.	Lack of information from fund managers; Lack of capacity within pension fund team and advisers;	Inappropriate fee levels and other costs.	Ongoing	Capital & Investments Manager	2	3	6	Detailed monitoring in place for the investment managers where direct investments held, higher level monitoring for unitised funds; TOLERATE	Partially Effective	1	3	3
1.9	Asset & Investment	Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap.	Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy	future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	3	9	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. As part of this assess requirement for Investment strategy to be reviewed and updated accordingly. TREAT - Undertake a full investment strategy review following 2020 valuation.	Effective	2	2	4
Page 129 1.10	Asset & Investment	Failure of Funds investment returns to keep pace with growth in liabilities due to pay and CPI Inflation increase, which may lead to Funding Levels falling and potentially requiring increases in employer contribution rates.	General economic climate results in higher CPI inflation and investment returns do not keep pace due global investment markets and economies	Funding levels fall, SBC pay more contributions into Fund.	ongoing	Chief Financial Officer	4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards TOLERATE	Effective	3	4	12
2.1	Employer	Failure to apply and demonstrate fairness in the treatment of different fund employers may lead to improper management of the Fund and result in inappropriate employer contribution rates or cross-subsidisation of employers out with the agreed pooling arrangements.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates or cross-subsidisation of employers out with the agreed pooling arrangements leading to a shortfall of funding or over charging of an employer.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2017 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. /SBHA & CGI to reflect employer situations. Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. Annual declaration now required from each employer. Annual Declaration includes changes of to scheme membership for current and future year. TOLERATE	Effective	3	1	3

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
2.2	Employer	Adoption of either an inappropriately slow or rapid pace of funding rates for different employers may result in improper management of the Fund and result in inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2017 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA & CGI to reflect employer situations; Annual declaration made by each Employer for forthcoming changes Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. TREAT Undertake next valuation for 2020	Effective	2	2	4
2.3	Employer	Failure of a Scheme Employer may lead to a shortfall in the funding levels of whole Fund resulting in increases for all other employers contributions	Scheme employer ceasing to operate	Shortfall in fund as a whole with increases required in all other employers contributions	Ongoing	Pension Fund Committee/ Chief Financial Officer	4	3	12	Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey, and Council agreement in place for Live Borders CGI and SB Cares; Guarantee in place with SG for Visit Scotland; Contribution rates based on open/closed status of employer; Updated Admission Agreement and formal consideration of support at initial set up now implemented; Movement to closed scheme requires actuarial review, results then implemented. TREAT - Development of cessation policy.	Effective	3	2	6
2.4	Employer	Failure to understand and be involved in proposed structural changes in employers' engagement in the Scheme may lead to failure to manage the transition to a different level/type of participation by the employer in the Fund resulting in inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer.	Failure by employer to notify the fund of significant changes of membership; Changes to composition of employees; Fund participation no longer affordable to an employer.	Failure to manage the transition to a different level/type of participation by the employer in the Fund; Inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer. Fund reaches maturity more quickly; Adverse impact on cash flow and funding levels	Ongoing	Pension Fund Committee/ Service Director of HR	3	4	12	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Communication strategy approved and website launched Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year. TOLERATE ;	Effective	2	2	4
3.1	Resources & skills	Over reliance on key officers may lead to significant knowledge gaps resulting in failure to manage the Fund effectively.	Available resource; Requirement to maintain admin costs; Absence of succession management in relation to supporting crucial aspects of the operation of the Fund.	May lead to significant knowledge gaps resulting in failure to manage and operate the Fund effectively.	Ongoing	Chief Financial Officer/ Service Director of HR	3	4	12	Use of external advisers (investment/tax/SPPA) provides additional resilience and resources. Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Teams structured to reduce single points of failure and manage succession planning. Procedure notes written tested, system of regular review agreed TOLERATE .	Effective	2	2	4

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
3.2	Resources & skills	Failure to provide appropriate training and support and/or secure Board/Committee Member engagement in Training Programme may lead to ineffective management of the Fund as a result of poorly informed decision making.	Availability of members to attend training; Inappropriate training programme.	Ineffective management of the Fund as a result of poorly informed decision making.	Ongoing	Pension Fund Committee/ Chief Financial Officer	2	4	8	Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board TREAT - annual monitoring and reporting undertaken	Effective	3	3	9
3.3 Page 131	Resources & skills	Over reliance on key Members of the Board or Committee may lead to lack of challenge and objectivity in decision making resulting in failure to manage the Fund effectively.	Knowledge and experience gap of new members.	Failure to manage the Fund effectively.	Ongoing	Pension Fund Committee/ Pension Fund Board Chairs	3	3	9	All Members of the Pension Fund Committee and Pension Board are actively involved in the discussions with External Advisers and have access to the same information and training opportunities; Clear scheme of administration and constitutions established for the Committee and Board providing clarity of roles and responsibilities; Training Policy sets out skills and knowledge responsibilities for members. Pension Fund Committee and nominated reps of Board are actively involved in discussions with investment managers. TOLERATE	Effective	2	2	4
3.4	Resources & skills	Lack of sufficient knowledge and expertise on Pension Fund Committee and Board members to discharge their duties could lead to failure to manage the Fund effectively as a result of poorly considered decision making.	Knowledge and experience gap of new members.	Poorly considered decision making.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	4	12	Pension Fund committee and Board have access to External Advisers and Council Officers to help advise and inform them; Pension Fund committee and nominate representatives of Board have access to Investment Managers via the Investment and Performance sub committee Members Training Policy for Pensions Fund established, monitored and reported on annually; Annual training programme in place; Skills and training assessment undertaken annually. TOLERATE	Effective	2	2	4

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
3.5	Resources & skills	Failure of Officers to maintain sufficient level of competence to discharge their duties could lead to failure to manage the Fund effectively as a result of their inability to provide appropriate decision making support and advice.	Changes in legislation; New investment types and vehicles; Lack of documented procedures.	Failure to manage the Fund effectively.	Ongoing	Chief Financial Officer/ Service Director of HR	3	3	9	Use of External Advisers provides additional resilience and resources; Competency appraisal process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Procedural notes completed Regular engagement with external Investment Managers to supplement knowledge. TREAT - Improvement in quality of procedure notes for officers. Implementation of Competency Framework for all staff	Partially Effective	2	3	6
Page 132	Liquidity	Changes in composition of Pension Fund membership, i.e. active/deferred/pensioners may lead to insufficient assets in the Fund to meet the future liabilities as they fall due, potentially increasing employers contribution levels and changes to the investment strategy.	Variance between CPI rates and pay increases; Fewer people joining; Other employers close funds; Economic drivers to reduce workforce.	Fund Matures more quickly than currently anticipated and may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due potentially increasing employers contribution levels and changes to the investment strategy.	Ongoing	Chief Financial Officer	5	4	20	Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met; Use of an Investment Adviser and Actuarial services as and when required: Implementation of Auto-enrolment completed by July 2017, further re-enrolment to take place 2019; Pension Administration Strategy in place and monitored and Employer Liaison Group; Annual Report includes analysis of membership changes. Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; Estimated monthly cashflow completed and monitored. Investments identified to supplement funding gape TOLERATE	Partially Effective	2	2	4
4.2	Liquidity	If employees can no longer afford to participate in the scheme then there may be reduced income into Fund resulting in a change being required to the Funding and Investments Strategy due to changes in participation levels.	Economic circumstances; Potential increases to employee contributions due to central Govt. decisions; Changes to tax relief on pensions.	Reduced income into Fund resulting in a change being required to the Funding and Investments Strategy	Ongoing	Chief Financial Officer	4	4	16	Limited measures in place. Nationally negotiated rates/benefits with employee representatives (i.e. Trade Unions) on minimising employee contribution increases; Pay awards now being given, economy now improving; LGPS changes implementation of 50/50 option; Trade Union involvement in the Pension Board and Scheme Advisory Board; Communication issued with annual benefits statements. Communication strategy complete and website launched to promote benefits of scheme TOLERATE	Partially Effective	3	2	6

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
4.3	Liquidity	Significant differences between Actuarial Assumptions in the Triennial Valuation Reports and reality may lead to setting Funding and Investment Strategies which may result in insufficient cashflow to fund current obligations or insufficient funding to cover future liabilities	CPI inflation; Mortality levels; Investment Returns.	Setting Funding and Investment Strategies; Insufficient cashflow to fund current obligations or insufficient funding to cover future liabilities; Increased employer contributions.	Ongoing	Chief Financial Officer	3	3	9	Full actuarial valuation undertaken on Triennial basis; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions. Any strain on fund incurred paid by employer at point of retirement; Regular monitoring of investment performance and where medium to long term trend in returns is identified then this will be reviewed. TOLERATE	Effective	2	3	6
4.4	Liquidity	Number and value of early retirements increases to levels in excess of the actuarial assumptions, which may lead to incorrect employer contributions being set, resulting in insufficient funding for future liabilities.	Reducing workforce.	Insufficient funding for future liabilities.	Ongoing	Chief Financial Officer	3	4	12	Full actuarial valuation undertaken on Triennial Valuation; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions; Ensure Employers contribution to strain on the fund is correctly calculated and received into the Fund; Reduction in applications being supported seen in recent tranches of ER/VS; Continue to monitor ER/VS applications and impacts. TOLERATE	Effective	2	2	4
4.5	Liquidity	New pension access reforms ("freedom of choice") may lead to pension fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential for a significant change in the liability profile for the Fund.	Changes in legislation and increase in awareness.	Requirement to release large amounts of cash to members; Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position; Scheme sanction charges for any transfer to unapproved scheme.	Ongoing	Chief Financial Officer/ Service Director of HR	3	3	9	Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC; Monitoring will be undertaken during the year and reported to Members as part of the annual report. With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct (FCA) regulated adviser, includes signed declaration by individual; Continue to monitor ongoing legislation around this area. Communication Strategy agreed and website launched TREAT - Review and watch to be placed on advice and guidance issued from The Pension Regulator and Government.	Effective	2	2	4
4.6	Liquidity	Failure to manage the liquidity required for the Fund's cashflows may lead to assets being sold at unattractive times or investment opportunities missed due to unavailability of cash, resulting in an adverse impact on the valuation of the Fund's assets.	Higher than anticipated levels of retirement; Higher levels of lump sums commutation taken on retirement.	Requirement to divest investment assets at an unattractive time or missing investment opportunities which result in an adverse impact on the value of the Fund's assets	Ongoing	Capital & Investments Manager	4	3	12	Daily and weekly monitoring of Pension Fund's Cashflows; Estimated monthly cash shortfall identified . Investment strategy adjust to ensure income returned to fund to fund cash shortfall. Investment strategy monitored TOLERATE	Partially Effective	2	2	4

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
5.1	Administrative	Failure to process pension payments and lump sums on time may lead to financial distress for retiring staff and potential referral to the Pensions Regulator and/or external auditor resulting in the possibility of additional penalty costs and reputational damage.	Insufficient information from member or employer; Lack of access to pension fund system information; Absence of specialist pension admin.	Financial distress for retired staff; Potential referral to the Pensions Regulator and/or external auditor; Additional penalty costs; Reputational damage.	Ongoing	HR Shared Services Manager	3	3	9	Pension administration system implemented; Business World now to be used for pension payments; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained. TOLERATE	Effective	2	2	4
5.2	Administrative	Failure to collect and account for contributions from employers and employees on time may lead to adverse cashflow implications for the Fund potentially resulting in adverse external audit opinion, referral to the Pensions Regulator, reputational damage and requirement to divest investments to fund the cashflow deficit.	External employers not remitting contributions on time.	Adverse cashflow implications for the Fund; Adverse external audit opinion; Referral to the Pensions Regulator; Reputational damage; Requirement to divest investments to fund the cashflow deficit.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system implemented; Business World used for pension payments; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; TOLERATE	Effective	2	2	4
Page 15 of 33	Administrative	Failure to provide pensions administration service due to major operational disruption could lead to inability to provide a high quality pension service to members	Loss of main office; Computer system; Staff absence.	Ability to process payments on time; Financial distress to members; Reputational risk.	Ongoing	HR Shared Services Manager	4	3	12	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. Pensions Administration System is hosted system, along with Windows 7 provides improved ability for homeworking; TREAT - in line with core HR risk review full business continuity review to be undertaken.	Effective	2	3	6
5.4	Administrative	Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds.	Lack of monitoring; Lack of segregation of duties.	Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members.	Ongoing	HR Shared Services Manager	3	3	9	Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk. TREAT - to request from each External Employers audited accounts to provide assurance on their internal controls	Effective	2	2	4
5.5	Administrative	Failure to hold personal data securely resulting in personal data loss, reputational damage and potential financial penalty	Lack of controls; Lack of monitoring; Lack of procedures; Lack of training and awareness.	Data lost or compromised; Reputational risk; Potential financial Penalty from Information Commissioner.	Ongoing	HR Shared Services Manager	2	3	6	Pension administration system implemented; Business World used for pension payments; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained in mandatory Data Protection and fully compliant with SBC Info. Governance requirements. Mandatory GDPR course undertaken by all staff. TOLERATE	Effective	2	2	4

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
5.6	Administrative	Failure to keep pension records up to date and accurate may lead to incorrect pensions information being issued or incorrect benefits calculations or payments	Lack of info from members and employers; Human error; IT systems failure.	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system implemented; Business World used for pension payments; Staffing structure of HR Shared Services continues to monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained mandatory Data Protection and fully compliant with SBC Info. Governance requirements; Annual Statements issued to active and deferred members, including list of beneficiaries. Form included for changes or discrepancies, Communication strategy approved and website launched TOLERATE	Partially Effective	2	2	4
5.7	Administrative	Failure to communicate effectively with stakeholders in Pension Fund resulting in inability to provide high quality pensions service	Failure to issue information in a timely manner and in an easily understandable format.	Scheme members not aware of their rights resulting in bad decisions; Employers not aware of regulations, procedures, etc.	Ongoing	HR Shared Services Manager/ Capital & Investments Manager	3	3	9	Engagement in Scottish pension networks; Union and Admitted body representation on the Pension Fund Board; Publication of annual report via website and printed copies to all Scheduled and Admitted bodies; Annual reporting or performance of issuing Benefits Statements to Pension Fund Committee and Board. Communication strategy agreed and launch of website. TOLERATE	Effective	2	2	4
5.8	Administrative	Failure to ensure pension transfer payments due to/payable by the fund are calculated accurately and received/paid resulting in incorrect funds being held within the Fund to pay future benefits to individuals	Failure to ensure pension transfer payments due to the fund are calculated accurately and received	Insufficient funds transferred/received to meet future obligations; Failure to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations; Referral to the Pension Regulator; Reputational damage; Financial penalty.	Ongoing	HR Shared Services Manager	2	3	6	Pension administration system continues to provide automated support in calculation, using nationally approved scheme based on number of standard assumptions at point of transfer. Procedure reviewed regularly TOLERATE	Effective	2	2	4
6.1	Regulatory & Compliance	Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation	Changes to legislation; Lack of staff training; Lack of knowledge and skills	Wrong pension payments made or estimates given; Breach of regulations; Prosecution.	Ongoing	HR Shared Services Manager/ Capital & Investments Manager	2	3	6	Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates; External Audit review extends beyond financial controls; Pension Board review of decisions; PRD process implemented to identify training and development requirements. TREAT - Implementation of Competency Framework to all staff	Effective	2	2	4

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Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
6.2	Regulatory & Compliance	Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	Central Govt. legislation changes.	Loss of independence in the management of the Fund; Impact on Fund value and benefits; Increased costs to the Fund, employer contributions; Potential loss of active scheme members.	Ongoing	Chief Financial Officer/ Service Director of HR	5	5	25	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board; TREAT Seek to input into any of the legislative change through active membership of COSLA;	Partially Effective	4	4	16
6.3	Regulatory & Compliance	Failure to produce accounts, notices and publications correctly or on time resulting in inability to manage the fund effectively and compliantly.	Lack of capacity; Conflicting operational demands, including Transformational activity.	Accounts qualified by External Auditors; Referral to Pensions Regulator or Scheme Advisory Board	Ongoing	Corporate Finance Manager	3	3	9	Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via PRD and attendance at appropriate training events. TREAT - Implementation of Competency Framework to all staff	Effective	2	2	4
6.4	Regulatory & Compliance	Changes in national jurisdictions may lead to changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes	Changes in national jurisdictions	Changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes e.g. Withholding Tax	Ongoing	Corporate Finance Manager	3	5	15	Monitoring of political position via news releases and group networks. TOLERATE	Partially Effective	2	5	10
6.5	Regulatory & Compliance	Changes in LGPS Structures	Review by Scheme Advisory Board on LGPS structures	Fund may cease to exist, assets may be pooled, Administration could be pooled	Ongoing	Chief Financial Officer	4	4	16	Monitoring of political position via Scheme Advisory Board TREAT - Actively engage with Scheme Advisory Board and consultants undertaking review	Partially Effective	3	4	12
7.1	Reputation	Conflict of interest for Elected Members on Pension Fund Committee and Board between Council priorities and Pension Fund Management priorities may result in failure to make the best decision for the Pension Fund	Conflicts of interest; Lack of understanding of their role on the Pension Fund.	Failure to achieve Pension Fund objectives; Failure to make the best decision for the Pension Fund; Referral to the Scheme Advisory Board and/or Pension Regulator; Legal challenge.	Ongoing	Chief Financial Officer	4	4	16	Members are clear on their respective responsibilities to the Council and Pension Fund (Constitution and Code of Conduct) through training; Officers and Investment Adviser provide additional clarity and support to avoid these situations; Skills and knowledge assessment undertaken annually; Pension Board role to ensure compliance with regulatory environment. TOLERATE	Effective	3	2	6
7.2	Reputation	Failure of the Fund's Governance arrangements may lead to ineffective management of the Fund resulting in reputational damage	Changes in legislation that are implemented incorrectly; Failure to follow Governance arrangements.	Ineffective management of the Fund; Reputational damage; Loss of employer confidence; Referral to Scheme Advisory Board and/or Pension Regulator; Legal Challenge.	Ongoing	Chief Financial Officer	3	3	9	Up to Date constitution for Pension Board and Scheme of Administration for Pension Fund Committee; Review of Governance structures undertaken on annual basis as part of Accounts process via compliance statement; Active participation and monitoring of changes required from LGPS 2015. Pensions Board role to support this agenda. TOLERATE	Effective	2	2	4

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
7.3	Reputation	Failure to appoint relevant advisers and review their performance may lead to inappropriate management of the Fund resulting from poor advice to decision makers	Lack of capacity of Officers to monitor.	Failure to achieve Pension Fund objectives; Inappropriate management of the Fund resulting from poor advice to decision makers; Legal challenge	Ongoing	Chief Financial Officer/ Service Director of HR	2	3	6	Identify requirements of external advisers and appoint appropriately. Annual review undertaken with Investment Advisor and Custodian. TREAT - Implement annual review of Advisers;	Effective	2	2	4
7.4	Reputation	Delays in implementation of decisions resulting in reducing the effectiveness of the decision and potentially adversely impacting on the ability to maximise investment returns	Competing priorities; Lack of resources.	Reducing the effectiveness of the decision; Potentially adversely impacting on the ability to maximise investment returns; Loss incurred or reduced income received.	Ongoing	Chief Financial Officer/ Service Director of HR	3	3	9	Decisions minuted and appropriate staff assigned to implement; Agreed actions monitored by Democratic Services; Implementation timescales priorities according to risk levels and available resources levels; 3 year Business Plan developed and approved on an annual basis and monitored in year by Pension Fund Committee and Board. TOLERATE	Partially Effective	3	2	6
7.5	Reputation	Ultra vires pension fund actions resulting in a failure to manage the pension fund properly	Fraudulent activity; Lack of skills and knowledge;	Failure to manage the Pension Fund properly; Financial loss; Reputation damage.	Ongoing	Chief Financial Officer	4	2	8	Training provided to Members and Officers to ensure legal framework understood; Use of external advisers and contact with SPPA. TOLERATE	Effective	2	1	2
7.6	Reputation	Pension Fund does not fulfil its fiduciary duties with appropriate regard with its ESG responsibilities	Lack of skills & knowledge Lack of information from Managers Lack of clear policy	Failure to manage the Pension Fund properly; Financial loss; Reputation damage.	Ongoing	Chief Financial Officer	4	4	16	Training provided to Members and Officers on their roles and fiduciary responsibility; Monitoring on quarterly basis of Segregated Portfolios voting Policy contained with Statement of Investment Principles including support for UNPRI. Responsible Investment policy approved TREAT - monitoring arrangements to be implemented	Partially Effective	2	2	4

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PENSION FUND BUDGET OUT-TURN TO 31 MARCH 2019

Report by Chief Financial Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with the budget out-turn position for Pension Fund budget to 31 March 2019.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets these standards the budget for 2018/19 was approved on 14 March 2018 following the standard presentation recommended by the CIPFA accounting guidelines. This report is the final quarterly report of the approved budget.
- 1.4 The total expenditure to 31 March 2019 is £6.528m against a budget of £6.409m. The variance of £0.119m has resulted from an increased manager fees, overtime within Pensions admin and procurement costs.

2 STATUS OF REPORT

- 2.1 Due to the timescales of completed the information for inclusion in the report this is report is currently being consulted on. Comments received will be reported at the meeting.

3 RECOMMENDATIONS

- 3.1 It is recommended that the Pension Fund Committee notes the actual expenditure against budget to 31 March 2019.**

4 BACKGROUND

- 4.1 The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to ensure strong governance arrangements are in place and sets out the standards they are to be measured against. The Fund is required to report compliance with these standards within its Annual Report. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 4.2 The 2018/19 budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 14 June 2018. The approved budget follows the Local Government Pension Scheme management costs guidance issued by CIPFA. This requires costs to be shown in the following 3 categories.

Category	Costs included
Investment Management	All expenses incurred in relation to management of pension fund assets. Including costs invoiced direct and fees deducted from fund assets. Custody and performance fees also included
Administration	Costs incurred in administration of the fund including staff, IT costs and associated overheads, benefits consultants.
Oversight and governance	Costs incurred in the selection & appointment of managers, audit fees, investment advisory services, tax advisory, accounting services, banking service and support to the pensions committee and board.

- 4.3 The pressure to improve the level of transparency of fees for investors has continued. The Scheme Advisory Board for England and Wales produced a Code of Transparency and templates in 2017. The Scheme Advisory Board for Scotland recommends funds adopt this code.
- 4.4 During 2018 the "Cost Transparency Initiative" was established to further refine the templates and code. The revised guidance has been developed in conjunction with Investment Managers and Funds, resulting in new templates being launched on 21 May 2019. These revised templates will be used for the 2019/20 accounts.

5 MONITORING TO 31 MARCH 2019

5.1 The table below shows the actual expenditure to 31 March 2019 compared to the approved budget for 2018/19 and the budget for 2019/20.

	Actual Expenditure to 31 March 19 £000's	2018/19 Budget £000's	2018/19 Variance £000's	2019/20 Approved Budget £000's
Investment Management Fees	5,848	5,792	56	5,750
Administration	391	376	15	390
Oversight & Governance	289	241	48	262
Total	6,528	6,409	119	6,402

5.2 The LGPS Code of Transparency was introduced during 2017/18 and required all fund managers to provide information on their management fees, performance fees, transaction costs, custody cost and any other fees incurred by the funds. The table below breaks the fees down to the required code level.

2017/18 £000's		2018/19 £000's
3,787	Management Fees	4,149
75	Performance related fees	102
4,222	Transaction Costs	1,063
65	Custody Fees	48
69	Other Fees	486
8,218	Total	5,848

5.3 All the Fund's managers have completed the required template but several have continued to note caveats concerning the information due to the complexity of their funds and the guidance. Revised templates have now been issued as part of the Cost Transparency Initiative which have been developed in conjunction with the Investment Managers. These templates will be used to gather the fee information during 2019/20.

5.4 All fees whether disclosed or not, are however fully taken into account in reporting of performance information for each fund, with investment gains being reported after deducting costs, i.e. net of all fees.

5.5 The variance in Administration is due to additional hours worked in overtime during the financial year to deal with some workload issues. The bulk of the additional hours were worked on the processing of the annual returns, primarily on those received from Scottish Borders Council and SB Cares, being the first annual returns since the introduction of the new payroll system.

5.6 The variance in oversight and governance was due to the one off costs to undertake the Infrastructure Debt procurement and the additional Investment Performance Sub Committee during 2018/19.

6 IMPLICATIONS

6.1 Financial

There are no costs attached to any of the recommendations contained in this report its content relating to the disclosure of fees and costs already incurred by the pension fund in 2018/19.

6.2 Risk and Mitigations

This report is part of the governance framework of the Pension Fund and reflects compliance with the best practice recommendation.

6.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

There are not changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council are being consulted and their comments will be reported at the meeting.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 7 March 2019

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension and Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166.
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DRAFT ANNUAL REPORT AND ACCOUNTS 2018/19

Report by Chief Financial Officer

**JOINT MEETING OF PENSION FUND COMMITTEE AND
PENSION BOARD**

13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 **The attached Draft Annual Report and Accounts for the Pension Fund for 2018/19 is being presented for consultation prior to submission of the Report to the Audit and Scrutiny Committee and the External Auditors.**
- 1.2 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specify the elements which must be contained in the Annual Report and Accounts, the list of these are contained in para 4.1. The draft Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 The draft Report and Accounts are still subject to statutory Audit, which will commence early July 2019. Following the statutory Audit process the final Report and Accounts will be circulated to the joint Committee and Board.

2 STATUS OF REPORT

- 2.1 This report is presented to enable members of both the Pension Fund Committee and the Pension Fund Board to consider the draft Annual Report and Accounts for 2018/19 (the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2019.
- 2.2 This report was not circulated to consultees within the recommended timeframe and as a result their comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing the Annual Report

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Annual Report and Accounts 2018/19 contained in Appendix 1 is considered prior to the submission to Audit and Scrutiny Committee on the 25 June 2019 and the subsequent statutory audit process.**

4 BACKGROUND

- 4.1 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specifies that the Annual report must contain:
- (a) report on the management and financial performance during the year,
 - (b) statement on the investment policy for the Fund,
 - (c) pensions administration arrangements during the year,
 - (d) actuarial valuation statement,
 - (e) governance compliance statement,
 - (f) fund account and net asset statement,
 - (g) annual report on pension administration strategy, and
 - (h) details of where to access current Funding Strategy Statement and Statement of Investment Principles.

5 ANNUAL REPORT AND ACCOUNTS 2018/19

- 5.1 The draft Annual Report and Accounts for 2018/19 (the Annual Report) is attached at **Appendix 1**. The Annual Report will be submitted to Audit and Scrutiny Committee on the 25 June 2019 for review prior to submission to the external auditors, Audit Scotland, by 30 June 2019. .
- 5.2 The Annual Report will also be made available for public inspection for a 3 week period commencing 30 June 2019.
- 5.3 It should be noted that the Annual Report remains draft and the conclusion of the year end including the external audit may result in changes to it.
- 5.4 The Committee will receive a copy of the final report at the end of the statutory external audit process prior to its submission to Council and publication.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this proposal.

6.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

6.3 Equalities

It is anticipated that there are no adverse equality implications.

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this reports which would affect the Council's sustainability.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the contents of this report.

6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

7 CONSULTATION

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and any comments will be included into the version presented to the Audit and Scrutiny Committee on 25 June 2019.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension and Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Pension Fund Committee and Board 14 June 2018

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Pension & Investments Team can also give information on other language translations as well as providing additional copies.

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SCOTTISH BORDERS COUNCIL PENSION FUND

UNAUDITED

ANNUAL REPORT AND ACCOUNTS

For the year to 31 March 2019

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REPORT BY CHAIRMAN OF PENSION FUND COMMITTEE

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2019. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in financial year 2018/19.

Highlights for the Year

Pension Fund Committee/Pension Board

The Pension Fund Committee has worked hard during the year in response to the continually growing governance agenda and increasingly complex pension administration environment that the Fund operates within.

The Committee members have engaged with training events both locally and nationally to expand their knowledge and understanding. All members of the Committee have completed The Pension Regulators, Trustee Toolkit and 75% of Board completed.

The Joint meetings of the Committee and Board continued during 2018/19 to be productive and informative due to the positive engagement of all members.

The Investment and Performance Sub-Committee, has met all investment managers during the year, which has allowed the committee full scrutiny of funds managed.

Investment Assets

The value of the Pension Fund has continued to increase with strong returns coming from global equities. The Fund has progressed well with the ongoing implementation of the Strategic Asset Allocation approved in September 2018.

The overall the Fund grew by 7.6% during 2018/19, marginally underperforming its benchmark by 0.1%. The overall fund value increased to £732.9m, an increase of £48.3m.

The Fund has made good progress rebalancing the asset allocation towards the approved strategy. Exposure to equity investment has consequently been reduced from 65% to 48% of the overall fund. Investment in infrastructure has increased by 2.4% during the year and the fund continues to investigate opportunities to further invest in this asset class in collaboration with Lothian Pension Fund.

New appointments were made during the year for Infrastructure Debt managers which have now commenced the drawing down of the allocated funds.

Statement of Responsible Investment

The Committee believes that a positive approach to Environmental, Social and Governance issues can positively affect the performance of the Fund. A Statement of Responsible Investment was approved forming a corner stone to the Fund ESG policies.

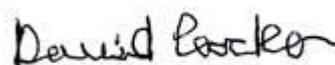
Pensions Administration

100% of annual benefit statements were distributed within the required timescales and work has progressed well finalising the GMP reconciliation.

Following a procurement process the Fund appointed a new actuary Hymans Robertson on 1st December 2018.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our investment managers, our investment advisor KPMG, our outgoing actuary Barnett Waddingham and the new actuary Hymans Robertson for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.



**Chairman, Pension Fund Committee
Scottish Borders Council**

MANAGEMENT COMMENTARY

Management and Financial Performance

Scottish Borders Council Pension Fund

2018/19 Key Highlights

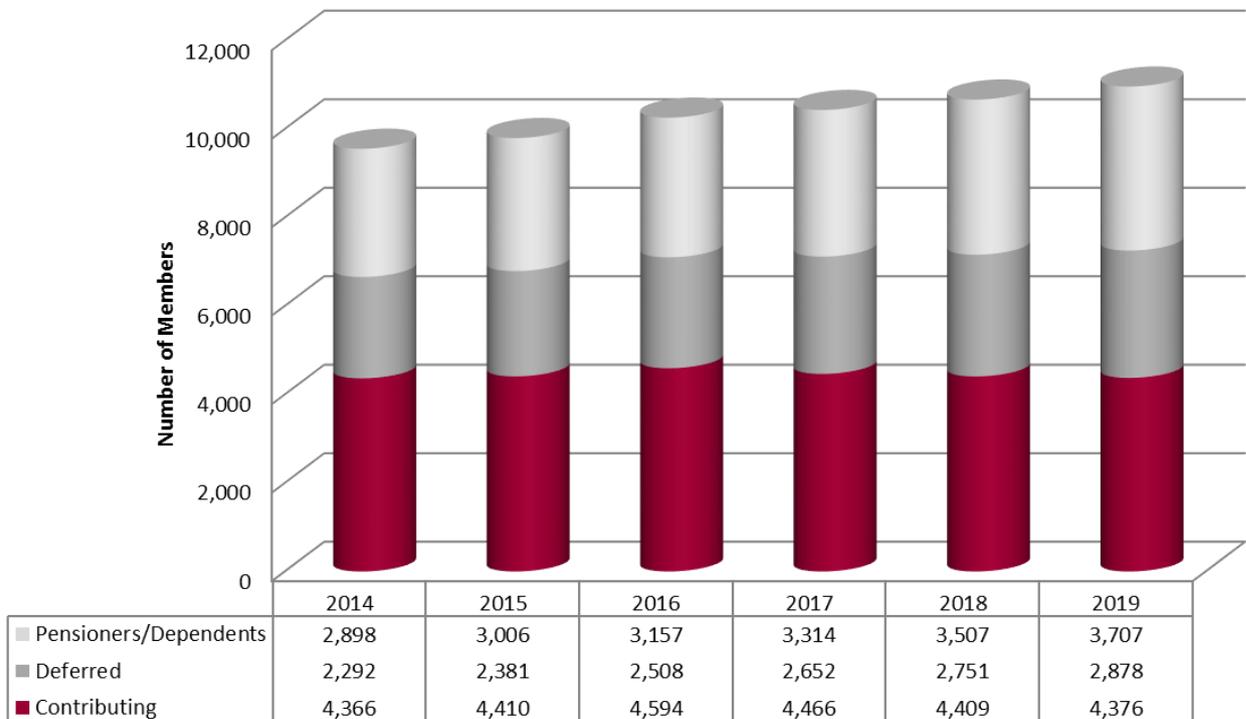
- £732.9m Net assets, an increase of £48.3m on 2018/19
- Strong performance return of 7.6% for 2018/19 and 11.3% for the rolling 3 year period
- Fund continue to meet its strategic investment return benchmark
- Continued sound governance of the Fund and engagement of Members in the training programme
- 10,961 Members, an increase of 294 on previous year

The Scottish Borders Council Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS) is administered by Scottish Borders Council (the Administering Authority). Note 1 to the Annual Accounts, page 27 provides a description of the Fund.

The Note sets out information in relation to the Fund's regulatory environment, funding, benefits and membership.

Overview of Fund Membership

Current membership of the Fund is 10,961 of which 4,376 are actively contributing and 3,707 are in receipt of pension benefits. The following chart summarises the trends in membership:



The chart on the previous page demonstrates that although there has been a relatively static position in relation to active contributing membership, there has been a continuing rise in the number of pensioners. Since 2014 the total membership has increased by 1,111 members (a 12% increase overall). During this period the number of pensioners and their dependants has increased by 28%, and the number of active contributing members has increased by 0.2%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively as the fund matures. This was included as part of the considerations when undertaking the full investment review.

Financial Performance

The Financial Statements for the Fund are set out from page 25.

Key Figures from these are set out below:

	2017/18 £'000	2018/19 £'000
Net (Withdrawals) from Dealings with Members	(2,579)	(3,610)
Net Return on Investments	41,486	58,454
Net Increase/(decrease) in the Fund during the Year	30,190	48,316
Closing Net Assets of the Scheme	684,583	732,899

These highlight two key messages in relation to the Financial Position of the Fund:

- **Strong financial returns from Fund Managers have resulted in an increase of £48.3m in Net Assets**
- **A Net Withdrawal position of £3.6m in relation to dealing with Fund Managers**

The strong asset position, along with the 2017 Triennial Valuation of funding levels, demonstrates that the Fund is well placed to meet its future pension and other benefit liabilities.

The slightly increasing net withdrawal position supports the trend that is seen in the membership chart as outlined on page 3.

The changes in legislation around what pensioners are able to do with their pension benefit entitlements have increased individual freedom to withdraw from the Fund potentially triggering significant transfer movements. The fund has not however seen any significant withdrawals from the fund as a result of this legislation and continues to monitor this position.

Governance and Decision Making

Following the significant changes required in the governance arrangements which came into force on 1 April 2015 the Pension Fund Board was established. Joint meetings of the Pension Fund Committee and Pension Fund Board have been held regularly during 2018/19.

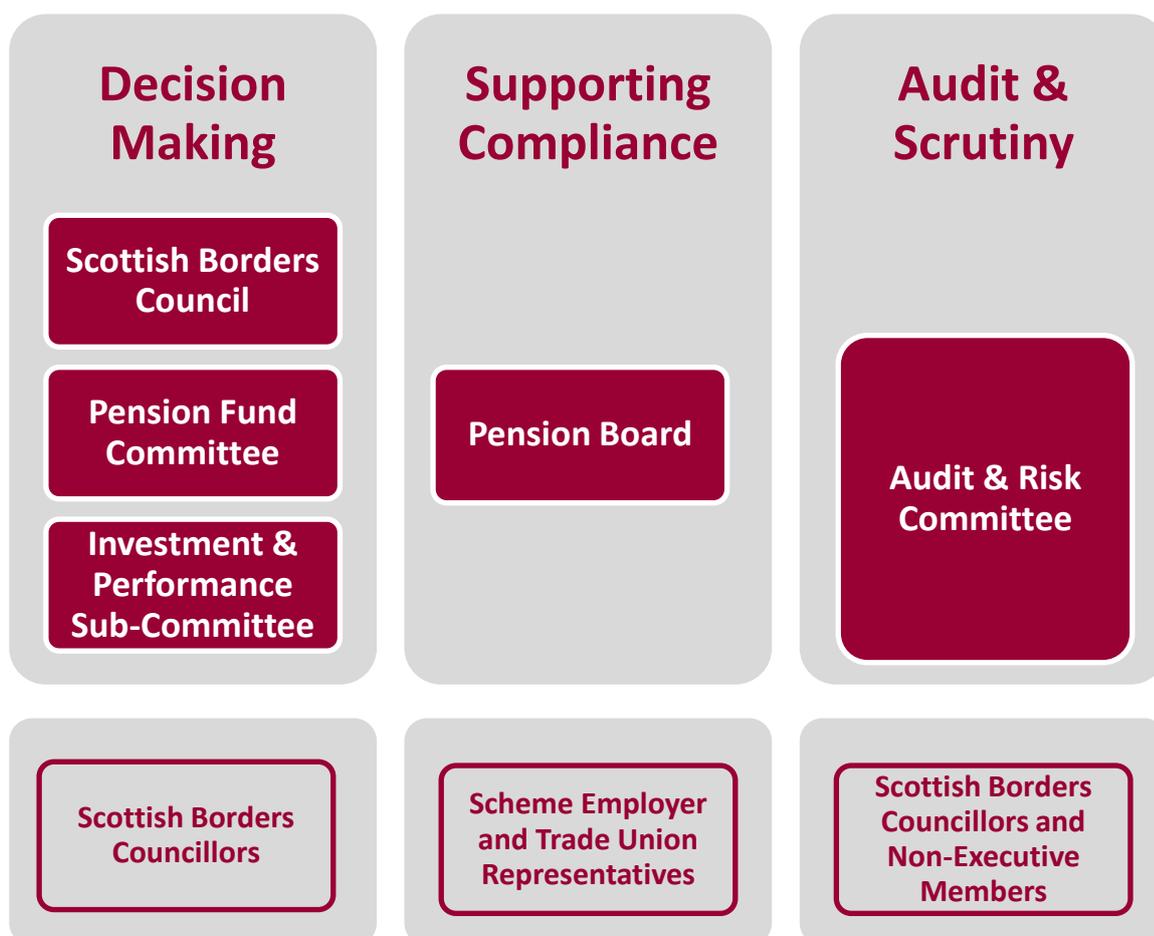
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

- a) securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify.

This body is made up of four scheme employer representatives and four trade union representatives.

The membership of the Pension Fund Committee comprises elected members from the administering authority, Scottish Borders Council.

The governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2019 can be found on pages 16 to 22.

Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 22 June 2017 reflecting the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2018/19 training programme was developed. Training was delivered to all members of both the Pension Fund Committee and the Pension Fund Board and covered the following areas:

- Financial Markets and Investment Products
- Role of Custodian
- General Pension Fund regulatory environment
- LGPS Benefits structure

The Training Policy sets out a target for all members of the Pension Fund Committee and Pension Fund Board in relation to attendance at Committee meetings and training events. The 2018/19 performance is set out below.

<i>Pension Fund Committee</i>		Number of Members Attending	
% Attendance	Committee (Target – 2 meetings)	Training (Target – 2 sessions)	
100% (4 sessions or more)	2	3	
75% (3 sessions)	3	1	
50% (2 sessions)	0	1	
≤ 25% (1 or no sessions)	2	2	

<i>Pension Fund Board</i>		Number of Members Attending	
% Attendance	Committee (Target – 2 meetings)	Training (Target – 2 sessions)	
100% (4 sessions or more)	2	3	
75% (3 sessions)	3	2	
50% (2 sessions)	0	2	
≤ 25% (1 or no sessions)	3	1	

The Policy requires members of the Pension Fund Board and Committee to attend at least two meetings per year and two training events. 72% of Members of the Pension Fund Committee met the training and attendance targets set in the Training Policy. 62% of the Pension Fund Board met the attendance target and 87% met the training target. The Training policy also for 2017/18 required all members of the Committee and Board to undertake the Pension Regulator Trustee Toolkit within 6 months of becoming a member. The toolkit has been completed by 100% of the Committee and 75% of the Board.

The Fund is able to demonstrate full compliance with the relevant best practice standards and this is set out in the Governance Compliance Statement from page 19.

Fund's Aims and Objectives

Primary Aim of the 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.

Funding Objectives

- 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.
- Build up the required assets in such a way that ensure levels of **employer contribution that are stable**

Pensions Administration

- Deliver a **High Quality Pension Service to Members.**

Governance

- Ensure that Scottish Borders Pension Fund is **managed effectively, transparently and remains compliant.**

The Fund approved a Business Plan for the period covering 2018/19 – 2020/21 on 14 June 2018 and this presented the action plan associated with supporting the delivery of these aims and objectives. The key following actions were completed during 2018/19.

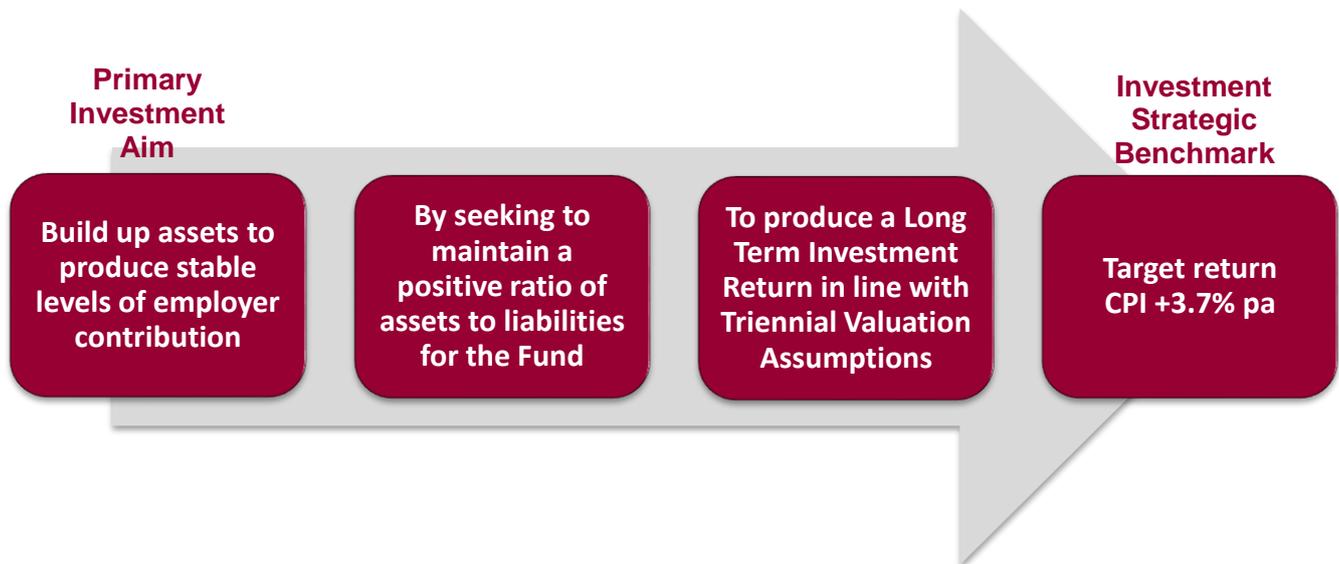
- **2017/18 Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications**
- **Review of Funding Strategy Statement and asset allocation completed following 2017 triennial valuation**
- **Review of AVC provider and provision completed**
- **Strong progress made in Private Credit and Infrastructure asset categories per Investment strategy**

A full copy of the Business Plan can be found at www.scotborders.gov.uk/pensions.

MANAGEMENT COMMENTARY

Investment Strategy

The Statement of Investment Principles (SIP) approved on the 13 June 2019 sets out the Fund's current Investment Strategy and a copy of this document can be found at: www.scotborders.gov.uk/pensions. An extract of the key elements of the SIP shown below:



The following table indicates the actual position at 31 March 2018 in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/18 %	Asset Allocation at 31/3/19 %	Strategic Benchmark %
UK Equity	15.2	14.4	10.0
Global Equity	43.0	33.9	30.0
Bonds	15.2	21.2	15.0
Alternatives	11.9	13.5	17.5
Property	14.0	13.5	15.0
Infrastructure	0.6	2.9	12.5
Cash	0.1	0.6	0.0
Total	100.0	100.0	100.0

As can be seen from the table above there has a reduction in the allocation to equities during the year. Despite this the Fund continues to run overweight in equities due to the continued growth of equities and the ongoing work to transfer funds into Infrastructure and Private Credit. To reduce the equity risk funds some of the overweight position in equities was been disinvested and is held in the Bonds portfolios until the infrastructure and private credit portfolios are in a position to draw down the funds.

The strategic benchmark represents the asset allocation split as approved in September 2018 and contained with the 2019 Statement of Investment Principles.

MANAGEMENT COMMENTARY

Review of Investment Performance

2018/19 in numbers

- Strong 3 year annualised investment performance of 11.3%, 1.3% above benchmark

- Strong 1 year performance to March 2018 with investment returns of 7.6% in the year compared to a benchmark of 7.7%
- Good progress achieved in implantation of revised asset strategy

Key Success 2018/19

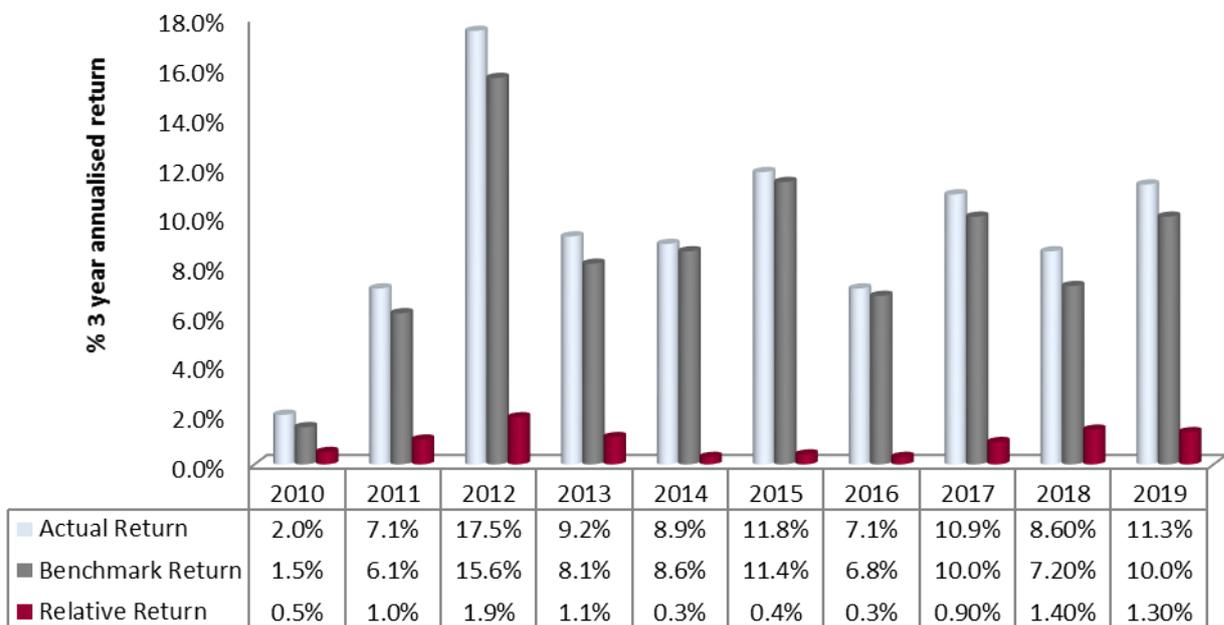
Investment Markets

During 2018/19 equities experienced a volatile period during the end of the calendar year. Quarter 1 2019 however saw most funds rebound to provide positive returns. The weakness of sterling against most major currencies however continues to affect the performance of Fund.

Investment Performance

The Fund's performance against benchmark over the past 10 years is highlighted in the chart below. This chart demonstrates that the rolling 3 year annualised relative return (i.e. Fund's return achieved compared with the benchmark) since 2010 has been positive. On average the fund has returned relative out performance against bench mark of 0.91% per annum over the last 10 years.

3 Year Annualised Returns ending 31 March



The Fund achieved these favourable returns in 2018/19, with most Fund Managers producing a positive return of 7.6% against a benchmark of 7.7%. Global equities provided the highest out performance against benchmark, despite a dip in values in the final quarter of the year.

Each quarter the Investment Consultants, KPMG, reported on the Fund's quarterly performance by individual investment manager and mandate to the Joint Pension Fund Committee, and Pension Board. The Investment and Performance Sub Committee also met each Manager during the year giving members an opportunity to gain a deeper understanding of the investments, their decision making processes and their performance.

The following table provides an analysis of how the Fund's investments performed against the Funds 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	7.6	7.7	11.3	10.0
Global Equities	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
Alternatives	5.0	4.8	5.0	4.6
Property	5.5	4.9	5.6	5.8
Cash	-	-	-	-

The performance of the Fund overall has exceeded the rolling 1 year and 3 year benchmark. The rolling 1 year performance was aided by strong performance from Baillie Gifford and Morgan Stanley in global equities

Top 20 Direct Equity Holdings at 31 March 2019

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential	6.8	Alphabet Inc	3.0
Naspers	5.7	Visa Inc	2.9
Amazon	4.9	Apache Corp	2.6
ADR Alibaba Group	4.7	Ping An Insurance Group	2.6
Anthem Inc Com	3.9	SAP SE	2.5
ADR ICICI BK Ltd	3.5	Pernod Ricard NPV	2.5
AIA Group Ltd	3.4	BCO Bradesco	2.0
Moodys	3.3	CRH PLC	2.0
Mastercard	3.3	Thermo Fisher Corp	1.9
BHPGroup PLC	3.1	Waters Corp	1.9

MANAGEMENT COMMENTARY

Funding Position

2017 Valuation	<ul style="list-style-type: none"> • 114% Funding Level for the Fund • Stable Common Employer Contribution Rates at 18%
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Triennial Valuation 2017

The Triennial Funding Valuation as at the March 2017 was undertaken during 2017 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Board on 14 June 2018. A copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

The outcome of the 2017 Valuation was a funding level of 114% an improvement in the position assessed at 2014 of 101%. The funding position equates to a surplus of over £80m and the advice of the actuary is that this surplus be used over time to offset increases in the primary employer's contribution rate of 20.6%. As a result there was no change in the overall Fund common pool employer contribution rate which remained at 18%, although some individual employer rates did change for specific circumstances.

Valuation Date as at 31 March	Past Service Funding Position – Scottish Borders Council Pension Fund		
	2011 £m	2014 £m	2017 £m
Value of the Scheme Liabilities	(402.2)	(487.6)	573.3
Smoothed Asset Value	384.8	490.5	(653.9)
Surplus/ (Deficit)	(17.4)	2.9	80.6
Funding Level	96%	101%	114%

Note 26 to the Statement of Accounts on page 48, contains details of the outcome and assumptions used in the 2017 Valuation and the impact that it had on employer contribution rates.

A major contributing factor to the improvement in the funding level has been the strong investment performance that the Fund has achieved over the past 3 years.

Valuation for Statutory Accounts at 31 March 2019

Note 19 to the Statement of Accounts on page 46, contains the actuarial present value valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £202m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the fund. The full version of the actuary report and the current Funding Strategy is available via the Pension Funds website: <http://scottishborderscouncilpensionfund.org/>

MANAGEMENT COMMENTARY

Pensions Administration Update

2018/19 in Numbers

- **17 Scheme Employers**
- **£22.8m of Pension and Other Benefits paid during year**
- **£19.4m of Contributions Received from 4,376 Active Members and their Employers**
- **6,605 Benefits Statements issued**

Key Successes 2018/19

- **Launch of Scottish Borders Council Pension Fund Website**
- **Processing of Pension payments from Business World implemented from 1st April 2017**
- **Successful training and development of new staff following staff retirements within the team**
- **97% of contributions received from Employer Bodies on time**

Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2018/19 and covered the requirements for the year end returns, for results of the triennial valuation and an overview of investments. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the Pension Fund Board.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Teachers are not included as they are enrolled as members of the national Teachers' pension schemes.

There are 17 employer organisations within the Fund including the Council itself and membership by employer is analysed over the page.

Membership Details as at 31 March 2019	Number of Contributors	Pensioners	Deferred Pensioners	Total
Scheduled Bodies:				
Scottish Borders Council	3,269	3,227	2,440	9,036
Borders College	162	70	80	312
Visit Scotland (Scottish Borders)	1	7	8	16
	3,432	3,404	2,528	9,364
Active Admitted Bodies:				
Scottish Borders Housing Association	80	95	73	248
LIVE Borders	152	45	58	255
SBCares	669	112	178	959
Jedburgh Leisure Facilities Trust	2	1	1	4
L&B Community Justice Authority	-	2	7	9
Amey Community Limited	4	6	4	14
CGI	37	2	5	44
	944	263	326	1,533
Admitted Bodies with No Active Contributing Members:				
Gala Youth Project	-	1	1	2
Scottish Borders Careers	-	1	3	4
BC Consultants	-	15	16	31
Others	-	23	4	27
	-	40	24	64
Total	4,376	3,707	2,878	10,961

Member Engagement

The Scheme Employer Liaison meeting was held during 2018/19 and covered the requirements for the year end returns, for results of the triennial valuation and an overview of investments. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the Pension Fund Board.

Pensions Administration Strategy

The Fund's Pensions Administration Strategy was approved in September 2018. This sets out scheme employer and administering authority roles and responsibilities and defines the service performance standards.

How have we done?

A comprehensive report on Pensions Administration performance for 2018/19 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 13 June 2019 and a copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

Administering Authority Performance Measures

Many of the performance standards have been met in 2018/19 and are comparable with the positive performance in the previous year. The target performance days for responding to general queries was 5 days and almost 100% of queries were replied to within this new target.

Service Standard - Estimates

Standard	Volume of Requests	Target Response	2018/19 % on Target
Estimates – Transfer In	98	20 Days	47.96%
Estimates – Transfer Out	96	20 Days	56.25%
Estimate – All Other	1,036	10 Days	83.01%
Total Estimates	1,230		

Service Standard – Query Response Turnaround

Standard	2017/18		2017/18	
	Volume of Queries	% on Target	Volume of Queries	% on Target
Query responses – within 5 working days	1999	99.75%	3,323	99.64%
Benefit Statement queries – within 20 working days	67	100%	232	99.57%
Total	2,066		3,555	

Service Standard - Other

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	Yes
Benefit Statements	by end of August	Yes

There has been no significant change in the response times for queries, even with a marked increase in the number of queries having been received over the year.

Employer Performance Measures

Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	637	90%	100%
Retirement info – at least 20 working days before	227	90%	100%
Early leaver notification – within 20 working days	536	90%	100%
Death in service notification – within 10 working days	12	90%	100%

During 2017/18 Scottish Borders Council implemented a new ERP system, including a payroll module, this led to a marked reduction in performance over this period. As can be demonstrated by the above the performance standards are back to the previous high standard with information being passed to the Pensions Administration Team in accordance with the set standards in all instances.

Service Standard – Pension Contribution Payments

The following tables compare the date contribution payments are received against the target date for each of the Scheduled and Active Admitted Bodies.

Employer Body	Number of Monthly Payments Received		
	By Target Date (19 th of Month)	Late	% On Time
Scottish Borders Council	12	-	100%
Visit Scotland	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	12	-	100%
Jedburgh Leisure Facilities Trust	9	3	75%
LIVE Borders	12	-	100%
AMEY Community Limited	12	-	100%
SBCares	12	-	100%
CGI	12	-	100%

97% of the payments were received the target date within the target date or within a maximum of 4 calendar days. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.

Councillor David Parker
Chairman
Pension Fund Committee

Tracey Logan
Chief Executive
Scottish Borders Council

David Robertson
Chief Financial Officer
Scottish Borders Council

XX September 2019

GOVERNANCE

Annual Governance Statement 2018/19

Introduction

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Pension Fund is the Governance Policy and Compliance Statement (as amended on 13 June 2019) which is available on the website www.scotborders.gov.uk/pensions.

The Governance Framework

The key elements of the Pension Fund's governance arrangements include:

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme set up for the Scottish Borders geographic area.
- b) The Council has delegated its responsibilities as Scheme Manager to the Pension Fund Committee. The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund.
- c) The introduction of the Pensions Board, which meets jointly with the Committee, formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business Plan covering the period 2017/18 – 2020/21 to improve planning and monitoring of the performance of the Fund and to demonstrate the "Myners Principle" relating to effective decision making. The business plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that was managed effectively, transparently and was compliant.
- e) The Pension Fund appoints professional advisers and external service providers, covering investment advisory, custodian and actuarial services.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks, regular reviews of investment manager reports that measure performance against agreed targets, and independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.
- g) The Pension Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the risk register to regular review.
- h) The Chief Financial Officer (Section 95 officer) for the Council is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate professional advice is sought and is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.
- i) The Service Director Human Resources is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved pensions' administration strategy.

- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Scrutiny Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

The Council as Administering Authority of the Pension Fund conducts an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Scrutiny Committee whose role includes high level oversight of the Pension Fund's governance, risk management, and internal control arrangements.

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles and the detail of this is set out in the Governance Compliance Statement 2018/19, (pages 18 – 22).

The review of the effectiveness of the system of internal financial control is informed by the work of professional accountancy staff within the Council, the assurances from the Chief Officer Audit & Risk's annual internal audit opinion and report on the work of internal audit, and by the external auditors' reports.

The review cycle for the risk register is undertaken in line with agreed practice and the current status is summarised in the Risk Management Statement.

The conclusion from the review activity outlined above is that in 2018/19 the Pension Fund continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

Improvement Areas of Governance

The review has identified some areas where further improvements can be made to enhance the existing governance arrangements:

- a) Development and approval of cessation and Discretion Policy.
- b) Develop and implement an annual monitoring of Responsible Investment Policy.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control, governance and risk management. The annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Policy and Compliance Statement (pages 18 – 22).

Councillor David Parker
Chairman
Pension Fund Committee
XX September 2019

Tracey Logan
Chief Executive
Scottish Borders Council

GOVERNANCE

Governance Compliance Statement 2018/19

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Board.

Principle		Full Compliance	Comments
Structure			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the Committee).</p> <p>The Committee comprises of 7 elected members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p>
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	<p>The Pensions Board (the Board) formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board has 8 members, 4 employer representatives and 4 trade union representatives covering all pension fund members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The Investment and Performance Sub-Committee (the Sub-Committee) established under the Committee and has remit set out in the Scheme of Administration. This Sub-Committee</p> <p>Membership of the Sub-Committee is comprised of the 7 elected members from the Committee and 2 (non-voting) members from the Board.</p>

Principle		Full Compliance	Comments
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to Committee for approval. 2 members from the Board and all members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
Committee Membership and Representation			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Board and Committee meets jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Board. The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity.
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June). The Board was established by Council on 2 April 2015. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive papers and access meetings in the same way.

Principle		Full Compliance	Comments
Selection and role of lay members			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected members this is part of Council's Code of Governance along with Member induction programme. In addition the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within 6 months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.
Voting			
A	The policy of individual administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.

Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meeting of the Committee and Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits	Yes	Investment Sub-Committee meets every four months in between main joint Committee/Board meetings.
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	Pension Board formally provides for the stakeholders engagement.
Access			
A	Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members detailed in Scheme of Administration.

Principle		Full Compliance	Comments
Scope			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out that the Committee as having a remit which covers all matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.
Publicity			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	Scottish Borders Council Pension Fund has a standalone website with all governance documents and fund information. A link is provided to Minutes and Public papers available via Council website.

GOVERNANCE

Risk Management Statement

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately.

The Risk Register for the Pension Fund has been developed in line with the Council's approach to risk management and assesses risk using a scoring methodology based on likelihood and impact.

A full risk review was undertaken in June 2018 and subsequent reviews have followed the Council's cycle, as shown below:

Level of risk (Inherent risk score)	Reporting and Review Cycle
RED -Very High (15-25)	3 monthly reviews of action progress throughout the year
AMBER – High (6-12)	6 monthly review
GREEN – Low (1-5)	Annual review

The headings under which the Council consider risk are set out below and the analysis of the level and number of risks are set out below:

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	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

The one risk that remains at red assessment i.e. high risk as at 31 March 2019 are:

- **Legislation and other regulatory framework changes impacting on the Fund**

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Scottish Borders Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer.
- Manage the affairs of the Fund to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts of the Fund (in Scotland, the audited accounts must be laid before a meeting of the Authority within two months of receipt of the audit certificate)

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014, as updated by Scottish Ministers, the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) and supporting guidance issued by the Scottish Government.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice on Local Authority Accounting

The Chief Financial Officer has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Scottish Borders Council Pension Fund as at 31 March 2019, and of its income and expenditure for the year ended 31 March 2019.

Councillor David Parker
Chairman
Pension Fund Committee

David Robertson (CPFA)
Chief Financial Officer
Scottish Borders Council

XX September 2019

STATEMENT OF ACCOUNTS 2018/19 FUND ACCOUNT

2017/18 £'000		2018/19 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
19,365	Contributions	19,385	7
245	Transfers in from other pension funds	1,262	8
19,610		20,647	
(21,548)	Benefits	(22,794)	9
(641)	Payments To And On Account Of Leavers	(1,463)	10
(22,189)		(24,257)	
(2,579)	Net Additions/(Withdrawals) from Dealings with Members	(3,610)	
(8,717)	Management expenses	(6,528)	11
	Return on Investments:		
8,195	Investment Income	13,314	12
33,717	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	45,423	14A
(426)	Taxes on Income	(283)	
41,486	Net Return on Investments	58,454	
30,190	Net Increase/(Decrease) in the Fund during the Year	48,316	
654,393	Opening Net Assets of the Scheme	684,583	
684,583	Closing Net Assets of the Scheme	732,899	

NET ASSETS STATEMENT as at 31 March

2017 £'000		2018 £'000	Notes
685,681	Investment Assets	733,627	14
(742)	Investment Liabilities	-	14
684,939	Total net investment	733,627	
	Current Assets & Liabilities		
1,577	Current Assets	667	21
(1,933)	Current Liabilities	(1,395)	22
(356)		(728)	
684,583	Net Assets of the fund available to fund benefits at the period end	732,899	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in the Actuarial Statement in Note 25.

The unaudited accounts were issued on 30 June 2019 and the audited accounts were authorised for issue on XX September 2019.

David Robertson CPFA
Chief Financial Officer
XX September 2019

NOTES TO THE STATEMENT OF ACCOUNTS

1 DESCRIPTION OF THE FUND

A) GENERAL

The Scottish Borders Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council.

The LGPS scheme is governed by the Public Service Pensions Act 2013. The fund is administered by the Council in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended)
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015

It is a contributory defined benefit pension scheme administered by Scottish Borders Council to provide pensions and other benefits for pensionable employees of Scottish Borders Council and a range of other scheduled and admitted bodies within the Scottish Borders area.

Organisations participating in the Fund include:

- Scheduled Bodies – which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted Bodies – which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

B) FUNDING

Pensions and other benefits are funded by contributions from employees, employers and investment earnings.

The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions, which for 2017/18 were based on the valuation undertaken as at the 31 March 2017 as amended by specific changes agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2017/18 ranged from 15.5% to 19.8%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2019. From 1 April 2015 these contributions will be based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.

C) BENEFITS

Prior to 1 April 2015, pension benefits under the LGPS have been based on final pensionable pay and length of pensionable service as summarised below:

	Service pre 1 April 2009	Service post 31 March 2009	Services post 31 March 2015
Pension	Each year worked is worth 1/80 th x final pensionable salary	Each year worked is worth 1/60 th x final pensionable salary	Each year worked is worth 1/49 th x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum Part of the pension may be exchanged for a lumps sum. The conversion rate is £12 of lump sum for each £1 surrendered	No automatic lump sum. Part of the pension can be exchanged for a lump sum. The conversion rate is £12 is paid for each £1 of pension given up.
The lump sum cannot be greater than 25% of the capital value of the pre 2009 and post 2009 pension rights			

Benefits from the 1 April 2015 which build up on a career average basis are revalued annually in line with rises in the Consumer Price Index.

Additionally, the Scheme provides a range of guaranteed inflation linked benefits including early payment of pension and lump sum on ill health or redundancy grounds and death and survivor benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2017/18 financial year and its position as at the 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the *Local Government Pension Scheme Fund Accounts 2018/19 - example accounts and disclosure checklist* published by the Chartered Institute of Public Finance Accountants (CIPFA).

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. Local authorities responsible for administering a pension fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2014 to publish a pension fund annual report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

In accordance with the Code, the Fund's Financial Statements are generally prepared on an accruals basis. The Net Assets Statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits from and to other schemes are treated on a cash basis.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

Investment Income

i) Interest income

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administration Expenses

All administration expenses are accounted for on an accruals basis. Central Support Costs from Scottish Borders Council have been recharged to the Fund on the basis of time spent by staff on the service. The recharge includes overheads apportioned to this activity.

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates or subscription agreements governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Assets Statement

Valuation of Investments

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the closing business day.
- Unquoted investments – Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement
- Pooled investment vehicles – are valued at bid price on the closing business day.

The processes of the fund managers, who are listed in Note 14c, page 38 are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks (in particular currency) arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of the derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19, page 46).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life to

act as AVC provider. AVC's are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

Accounting Standards that were issued but not yet adopted.

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. Four standards have been issued but not yet adopted:

- IFRS 9 (Financial Instruments).
- IFRS 15 (Revenue from Contracts with Customers) (Amendment) (Clarification).
- IAS 12 (Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses) (Amendment).
- IAS 7 (Statement of Cash Flows; Disclosure Initiative) (Amendment).

We do not expect any of these to impact on the Pension Fund.

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICES

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2019 was **£12.9m**.

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary (currently Hymans Robertson), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19 page 46. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the financial statements at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 19)	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and	The effects on the net pension liability of changes in individual assumptions can be measured. - A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.2m

	<p>expected returns on pension fund assets. Barnett Waddingham is engaged to provide the Fund with expert advice about the assumptions to be applied.</p>	<ul style="list-style-type: none"> - A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £8.1m - A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1.7m, and - A 0.25% increase in assumed life expectancy would increase the deficit by £3.9m <p><i>Source – Triennial Valuation 2017</i></p>
<p>Portfolio of Level 3 assets held</p>	<p>Level 3 assets are those which do not have a observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. There is however a degree of estimation involved in the valuations.</p>	<p>The total assets held in level 3 £186.9m and include Private Credit, Property, Infrastructure and Alternatives. There is a risk that this investment may be under- or overstated in the accounts.</p>

6 EVENTS AFTER THE REPORTING DATE

There are no known events since the 31 March 2019.

7 CONTRIBUTIONS RECEIVABLE

2017/18				2018/19		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
13,631	4,493	18,124	Normal	14,463	4,601	19,064
1,209	-	1,209	Special/Pension Fund Strain	291	-	291
	32	32	Additional Voluntary	-	30	30
14,840	4,525	19,365	Total	14,754	4,631	19,385

2017/18 £'000		2018/19 £'000
13,317	Administering Authority	14,121
746	Scheduled Bodies	738
5,302	Admitted Bodies	4,526
19,365		19,385

8 TRANSFERS IN

There were no group transfers in to the scheme during 2018/19 or 2017/18 and the total of £1.262m (2017/18: £0.245m) represents the total of transfer values in respect of individual members joining the scheme.

9 BENEFITS PAYABLE

2017/18 £'000		2018/19 £'000
16,794	Pension Payments	17,967
4,754	Lump Sums/Death Benefits	4,827
21,548		22,794

2017/18 £'000		2018/19 £'000
20,105	Administering Authority	20,958
295	Scheduled Bodies	373
1,148	Admitted Bodies	1,463
21,548		22,794

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £'000		2018/19 £'000
64	Contributions Returned	110
577	Individual Transfers to Other schemes	1,353
641		1,463

11 MANAGEMENT EXPENSES

2017/18 £'000		2018/19 £'000
292	Administrative costs	391
8,192	Investment management expenses	5,848
233	Oversight and governance costs	289
8,717	Total	6,528

11(a) INVESTMENT MANAGEMENT EXPENSES

2017/18 £'000		2018/19 £'000
3,787	Management Fees	4,149
75	Performance Related Fees	102
65	Custody Costs	48
4,196	Transaction Costs	1,063
69	Other Fees	486
8,192	Total	5,848

12 INVESTMENT INCOME

2017/18 £'000		2018/19 £'000
4,459	Dividends from equities	4,595
1,233	Income from Pooled Investment vehicles	3,642
2,476	Income from Pooled Property Investment vehicles	4,824
27	Interest on Cash Deposits	253
8,195		13,314

13 OTHER FUND ACCOUNT DISCLOSURES AUDITOR'S REMUNERATION

13(a) – EXTERNAL AUDIT COSTS

In 2018/19 the agreed audit fee for the year was £20,580 (2017/18 £19,990). The external auditor is Audit Scotland.

14 INVESTMENTS

Market Value at 31 March 2018 £'000		Market Value at 31 March 2019 £'000
-	Fixed Interest	
236,164	Equities	181,533
282,533	Pooled Investments	371,951
95,448	Pooled Property Investments	98,428
2,313	Private Equity/Infrastructure	21,450
49,685	Diversified Alternatives	51,678
6	Derivative Contracts	-
17,805	Cash Deposits	7,198
1,246	Investment Income Due	1,357
481	Amounts receivable for sales	32
685,681	Total Investment Assets	733,625
	Investment Liabilities	
	Derivative	-
(742)	Amounts payable for purchases	-
684,939	Net Investment Assets	733,627

Alternative asset portfolio at 31 March 2019

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £51.7m at 31 March 2019, is allocated to the following asset classes: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities, Infrastructure and Private Equity

14 (A) RECONCILIATION OF MOVEMENT IN INVESTMENT AND DERIVATIVES

The table below follows the guidance of the standard presentation for the movement in investments.

	Opening Market Value £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value £'000
Fixed Interest					
Equities	236,163	47,603	(113,686)	11,453	181,533
Pooled Investments	282,532	80,221	(18,963)	28,161	371,951
Pooled Property Investments	95,449	1,141	(35)	1,873	98,428
Private Equity/Infrastructure	2,313	19,229	(557)	465	21,450
Diversified Alternatives	49,685	-	(1151)	3,144	51,678
Derivative Contracts	6	62	(152)	84	-
	666,148	148,257	(134,543)	45,180	725,040
Other Investment Balances					
Cash Deposits	17,805			395	7,198
Amount receivable for sales	481			(1)	32
Investment Income due	1246			-	1,357
Spot FX Contract	-			(154)	-
Amount Payable on Purchase	(743)			3	-
Net Investments	684,939			45,423	733,627

Significant Transactions during the year:

The Fund continued to implement the investment strategy approved on 13 September 2018. Equity funds have been reduced and invested into inflation linked assets such as infrastructure Private credit.

Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2019. Each of the investments comprises units in a managed fund.

Value as at 31 March 2018	£'000
M&G Alpha Opportunities Fund	110,038
M&G Index Linked	45,511
Morgan Stanley Global Brands Fund	99,849
Blackrock – Long Lease property	60,629
LGT Crown SBC Segregated Portfolio	51,678
UBS Property	38,362
UBS UK Passive Equities	67,559

14 (B) – ANALYSIS OF INVESTMENTS

31 March 2018 £'000		31 March 2019 £'000
-	Fixed Interest Securities	
	UK	
	Public sector quoted	
	Corporate quoted	
	Index Linked	
	Overseas	
	Public sector quoted	
	Corporate quoted	
	Index Linked	
	Equities	
	UK	
48,188	Quoted	43,888
	Overseas	
187,924	Quoted	137,607
236,112		181,495
	Pooled Funds – additional analysis	
	UK	
34,622	Fixed Income Unit Trust	45,549
65,502	Equity Unit Trust	68,940
	Cash Funds	
	Hedge Funds	
	Commodity Funds	
	Overseas	
	Fixed Income Unit Trust	
86,029	Equity Unit Trust	99,850
	Cash Funds	
64,570	Hedge Funds	110,038
	Commodity Funds	
	UK & Overseas	
49,686	Diversified Alternatives	51,678
31,809	Private Credit Funds	47,611
	Diversified Growth	
	Social & Affordable Housing	
	Emerging Markets	
	Multi-Asset	
332,218		423,666
	Pooled Property Investments	
85,510	UK Pooled Property Investments	88,408
9,990	Overseas Pooled Property Investments	10,020
95,500		98,428

	Private Equity/Infrastructure	
1,478	UK Venture Capital	18,999
	UK Infrastructure	
834	Overseas Venture Capital	2,451
	Overseas Infrastructure	
	Private Debt	
2,312		21,450
	Property	
	UK Property	
	Overseas Property	
	Investment Assets	
8	Derivative assets	
17,807	Cash	7,198
	Cash equivalents	
	Spot FX	
	Other Investment assets	
1,246	Investment income due	1,357
481	Amounts receivable from sales	32
685,684	Total Investment Assets	733,627
	Investment Liabilities	
(2)	Derivative liabilities	
	Spot FX	
	Other Investment liabilities	
(743)	Amounts payable on purchase	
(745)	Total Investment liabilities	
684,939	Net Investment Assets	733,627

14 (C) INVESTMENT ANALYSED BY FUND MANAGER

Investment Management was undertaken on behalf of the Fund during the financial year by 13 firms of investment managers, these are shown below. The fund has also during 2018/19 continued to make investments into infrastructure via collaborative working with Lothian Pension Fund. As at 31 March 2019 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-18				31-Mar-19	
£'000	%			£'000	%
63,853	9.3	UBS	Pooled Fund -UK Equities	67,559	9.2
39,975	5.8	Baillie Gifford	UK Equities	38,060	5.2
157,511	23.0	Baillie Gifford	Global Equities	148,348	20.2
50,877	7.4	Harris	Global Equities	-	0
86,029	12.6	Morgan Stanley	Pooled Fund - Global Equities	99,850	13.6
69,570	10.1	M&G	Pooled Fund - Diversified Income	110,038	15.0
34,621	5.1	M&G	Pooled Fund - Bonds	45,512	6.2
36,617	5.4	UBS	Pooled Fund -Property	38,463	5.2
59,761	8.7	Blackrock	Pooled Fund – Property	60,629	8.2
49,685	7.3	LGT	Pooled Fund - Alternatives	51,678	7.0
15,969	2.3	Partners Group	Pooled Fund – Private Credit	19,867	2.7
15,840	2.3	Permira	Pooled Fund – Private Credit	27,745	3.8
2,333	0.4	KKR	Infrastructure	2,407	0.3
1,478	0.2	Infrared	Infrastructure	1,646	0.2
-		Dalmore	Infrastructure	6,676	0.9
-		Brookfield	Infrastructure	1,522	0.2
-		Macquarie	Pooled Fund -Infrastructure Debt	9,199	1.5
820	0.1	Internal	Internally Managed Cash & Investments	4,428	0.6
684,939				733,627	

The benchmarks and performance targets for each manager as at the 31 March 2019 are contained in the Statement of Investment Principles published on the Pension fund website.

Fund Performance

The total Fund return for the year was 7.6% with a relative return over benchmark of 7.7%.

Over three years the Fund has generated an annualised return of 11.3% per annum, including the currency hedging, with a relative return over benchmark of 1.3% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

14 (D) STOCK LENDING

As at 31 March 2019 no stock had been released to a third party under a stock lending arrangement.

14 (E) PROPERTY HOLDINGS

The Funds investment in its property portfolio comprises of pooled investments with UBS and Blackrock. There are no directly owned properties.

15 ANALYSIS OF DERIVATIVES

The Funds approach to derivatives is to allow individual manager to decide to participate in derivative contracts subject to limits set out in their investment management agreements. The fund holds cash assets to allow for cashflow purposes. Fund managers will also on occasions hold forward currency contracts.

Settlements	Currency Bought	Local Value £000's	Currency Sold	Local Value £000's	Asset Value £000's	Liability Value £000's
Under 1 month	GBP	31	JPY	(5)		0
Open forward currency contracts at 31 March 2019						0
Net forward currency contracts at 31 March 2019						0
Open forward currency contracts at 31 March 2018						(2)
Net forward currency contracts at 31 March 2018						6

16 (A) FAIR VALUE HIERARCHY

Assets and liability valuations are classified into three levels according to quality and reliability of information used to determine fair values.

1. Level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Prices are quoted at bid prices.
2. Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
3. Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Values as at 31 March 2019	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1	level 2	level 3	
	£'000	£000's	£000's	£000's
Designated as fair value through fund account	504,489	33,631	186,919	725,039
Loans & receivables	8,556	32	-	8,588
Financial liabilities at fair value through fund account	-	-	-	-
Net Investment Assets	513,045	33,663	186,919	733,627
Values as at 31 March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1	level 2	level 3	
	£'000	£000's	£000's	£000's
Designated as fair value through fund account	481,572	35,852	148,725	666,149
Loans & receivables	9,543	9,975	16	19,534
Financial liabilities at fair value through fund account	-	(744)	-	(744)
Net Investment Assets	491,115	45,083	148,741	684,939

16 (C) RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2017 £'000	Transfers into level 3 £'000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2018 £'000
Alternatives	49,685	-	-	-	1,993	-	51,678
Overseas Equity	834	-	1,633	(257)	102	138	2,450
Private Credit	31,809	-	17,089	(2,544)	1,257	-	47,611
UK Property	64,919	-	-	-	1,262	-	66,181
Overseas Venture Capital	1,478	-	17,754	(300)	67	-	18,999
Total	148,725	-	36,476	(3,101)	4,681	138	186,919

Transfers to level 3 reflect the investment into Private Credit following the implementation of the revised Investment Strategy.

Purchases and sales during the year reflect the implementation of the revised Investment Strategy.

SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having considered historical data and current market trends, and consulted with independent advisors, the fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Alternatives	4.6%	51,678	54,055	49,301
Overseas Equity	22.0%	2,450	2,989	1,911
Private Credit	8.0%	47,611	51,420	43,802
UK Property	12.0%	66,181	74,123	58,239
Overseas Venture Capital	12.0%	18,999	21,279	16,719
Total		186,919	203,866	169,972

17 (A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amount of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the account period.

31 March 2018				31 March 2019		
Fair value through profit & loss	Loans & Receivables	Financial Liabilities at amortised cost		Fair value through profit & loss	Loans & Receivables	Financial Liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
236,163	-	-	Equities	181,533	-	-
282,532	-	-	Pooled Investments	371,951	-	-
95,449	-	-	Pooled Property Investments	98,428	-	-
2,313	-	-	Infrastructure	21,450	-	-
49,685	-	-	Diversified Alternatives	51,678	-	-
8	-	-	Derivative Contract	-	-	-
-	17,807	-	Cash	-	7,198	-
1,246	-	-	Other Investment balances	-	1,357	-
481	-	-	Debtors	-	32	-
667,877	17,807	-		725,040	8,587	-
			Financial Liabilities			
-	-	-	Derivative Contract	-	-	-
-	-	-	Other investment balances	-	-	-
-	-	(743)	Creditors	-	-	-
-	-	(743)		-	-	-
667,877	17,807	(743)	Total	725,040	8,587	-
	684,939				733,627	

17 (B) NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018		31 March 2019
£000		£000
	Financial assets	
28,341	Designated at fair value through profit & loss	45,103
96	Loans & receivables	398
	Financial Liabilities	
(11)	Fair value through profit & Loss	78
(411)	Financial liabilities at amortised costs	(156)
28,015	Total	45,423

The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

18 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

RISK AND RISK MANAGEMENT

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for managing the Fund's risk rests with the Pension Fund Committee. A risk register for the Fund has been established to identify and analyse the risks that the Fund faces and the key messages from this process are covered in the Risk Management Statement on page 23. The Market Risk and Credit Risk aspects below come under the risk category of Assets and Investment in the Risk Register, whilst Liquidity Risk is a separate category of risk.

In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

A) MARKET RISK

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its Investment Consultants undertake appropriate monitoring of market conditions and benchmark analysis.

(i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's independent provider of performance and analytical data it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	105,619
Global Equities	248,198
UK Bonds	45,511
Property	99,092
Alternatives	230,778
Cash	4,428

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

Asset Type	Value as at 31 Mar 19 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	105,619	20.2	126,933	84,305
Global Equities	248,198	20.5	299,078	197,317
UK Bonds	45,511	11.2	50,617	40,406
Property	99,092	9.9	108,943	89,242
Alternatives	230,778	13.2	261,311	200,246
Cash	4428	0.9	4,469	4,387
Total Assets	733,627		851,351	615,903

*The percentage change for total assets includes the impact of correlation across asset classes.

(ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its Investment Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	At 31 March 2018 £'000	At 31 March 2019 £'000
Cash and Cash Equivalents	17,807	7,198
Fixed Interest Securities		-
	17,807	7,198

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Value as at 31 Mar 19 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	7,198	72	(72)

(iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in equities overseas that are denominated in currencies other than £UK.

The following table summarises the Fund's currency exposure at 31 March 2019:

Currency exposure by asset type	As 31 March 2018 £'000	As 31 March 2019 £'000
Overseas Equities	253,426	206,547
Diversified Bonds	64,570	110,038
Alternatives	49,685	51,678
Property	9,989	10,020
Venture Capital	834	2,451
Total	378,504	380,734

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with KPMG the likely volatility associated with foreign exchange movements on an individual currency basis is shown on the table on the following page. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the ‘basket’.

Currency	Value as at 31 Mar 18 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	632	10.61	700	566
Brazilian Real	3,038	15.80	3,518	2,558
Canadian Dollar	1,363	9.50	1,492	1,234
Danish Krone	1,529	8.44	1,658	1,400
EURO *	26,539	8.46	28,784	24,294
Hong Kong Dollar	7,512	9.20	8,203	6,820
Japanese Yen *	8,791	12.65	9,903	7,679
Norwegian Krone	1,611	10.39	1,779	1,444
South African Rand	5,861	15.09	6,745	4,976
Swedish Krona	1,840	10.31	2,029	1,650
Swiss Franc	2,727	10.98	3,027	2,428
US Dollar	139,430	9.35	152,470	126,390
Total Currency *	200,873		220,308	181,439

* The % change for Total Currency includes the impact of correlation across the underlying currencies.

B) CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund is separately mentioned within the Council's Annual Treasury Strategy and this document sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2019, including current account cash, was £2.5m (31 March 2018: £0.64m). This was held with the following institutions:

	Rating	Balance at 31 March 2018 £'000	Balance at 31 March 2019 £'000
Money Market Accounts			
Aberdeen Standard	AAA	5	-
Standard Life	AAA	5	-
Blackrock	AAA	5	-
Federated	AAA	5	-
Bank Current Accounts			
Bank of Scotland	A+	620	2,580
Northern Trust	AA		4,618
Total		640	7,198

C) LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its internally managed Pension Fund cash holdings through use of instant access accounts or money market funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2019, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

19 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2018, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period.

The Actuarial Valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate.

The Funding Strategy Statement

The latest Funding Strategy Statement (FSS) was approved by the Pension Fund Committee on 13 June 2019 and a copy of this document can be found at: www.scotborders.gov.uk/pensions. Key elements of the FSS are the Funding Objectives and Funding Strategy for the Pension Fund and these have been extracted and included below:

Funding Objectives (Section 1, page 2 of FSS)

To:

- 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
- build up the required assets in such a way that produces levels of employer contribution that are as stable as possible, with consideration of the long-term cost efficiency objective;

- ensure effective and efficient management of employers' liabilities; and
- allow the return from investments to be maximized within reasonable risk parameters

Funding Strategy (Section 5, page 5 of FSS)

The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations;
- Ensuring the solvency of the Fund and the long-term cost efficiency of the Scheme; and
- As stable an employer contribution rate as is practical.

2017 Actuarial Valuation

The 2017 Actuarial Valuation was undertaken for the Fund as at 31 March 2017 (the Executive report can be seen in Annex 1 with the full report available on the Scottish Borders Council Pension Fund website) and was completed during the financial year 2017/18 by the Fund's actuaries, Barnett Waddingham. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014.

The funding level of the Fund as at the 31 March 2017 was 114%, compared to the 31 March 2014 valuation of 101% and this corresponded to a surplus of £80.64m. The following table summarises the funding position.

Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2014 £m	2017 £m
Value of the Scheme Liabilities	(487.6)	(653.9)
Smoothed Asset Value	490.5	573.3
Surplus/ (Deficit)	2.9	80.6
Funding Level	101%	114%

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two.

The next detailed actuarial valuation will be carried out for the Fund as at 31st March 2020.

Valuation Assumptions

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2017) were:

	2014 Valuation		2017 Valuation	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities	5.9	2.6	7.5	4.7
Absolute return funds	5.9	2.6	5.5	2.7
Gilts	3.6	-	1.9	-0.9
Bonds	4.1	0.5	2.6	-0.2
Property	5.5	1.9	6.3	3.5
Multi Asset Fund/Infrastructure	5.9	2.3	7.2	4.4
Retail Price Inflation (RPI)	3.6	-	3.7	-
Pay Increases – Long Term	4.6	2.0	3.8	1.0
Pension Increases	2.8	(0.8)	2.8	0.0
Discount Rate	5.5	1.9	5.0	2.2

Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S2PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2016 projections, with a long term rate of improvement 1.5%.

Commutation Assumption

It is assumed that future retirees will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules.

Employer Contribution Rates

As part of the 2017 Actuarial Valuation, the actuary certified the primary rate at 20.6%, however in agreement with the Actuary a secondary rate of -2.6% has been deducted to allow the common rate of contribution as 18% of payroll for the next three years. The secondary rate will reduce the surplus of £80.6m over 53 years.

Individual and pooled employers' rates vary from the common contribution rate (18.0%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e. the rate which employers in the Fund pay):

Employers Contribution Grouping	Employers Contribution Rate	
	2017/18	2018/19
Scottish Borders Council Common Pool	18.0%	18.0%
Leisure Trusts Common Pool *	15.5%	-
Scottish Borders Housing Association – Individual	19.0%	20.3%
CGI	19.8%	21.1%

* The Leisure Trust Common Pool rate was made up with BSLT and Jedburgh Leisure Trust. The amalgamation of BSLT and the Council Culture services into LIVE Borders in 2016 however resulted in LIVE Borders revised rate of 18%. Following the 2017 valuation Jedburgh Leisure Trust also returned to the Common Pool. This leaves SBHA and CGI out with the Common Pool due to their closed status.

20 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the Triennial Funding Valuation, the Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

This uses the same base data as the Triennial Funding Valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

The actuarial present values, calculated in line with IAS 19, are set out in the table below.

	Net Pension Asset/(Liability) as at:		
	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m
Present value of the defined benefit obligations	(907)	(844)	(935)
Fair Value of Fund Assets* (bid value)	653	685	733
Net Asset/(Liability)	(254)	(159)	(202)

This figure is used for statutory accounting purposes by the Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed below:

	At 31 March 2017	At 31 March 2018	At 31 March 2019
	% p.a.	% p.a.	% p.a.
Discount Rate	2.7	2.55	2.5
Pay Increases – Long Term	3.7	3.3	3.5
Pension Increases	2.7	2.3	2.5

As noted above, liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 Triennial Funding Valuation (see Note 20) because IAS 19 stipulates a discount rate, rather than a rate that reflects the market rate for investment returns on the Fund's assets.

21 CURRENT ASSETS

	As 31 March 2018 £'000	As 31 March 2019 £'000
Current Assets		
Transfer value receivable (joiners)	53	193
Sundry Debtors	1,320	396
Prepayments		78
Total	1,373	667

Analysis of Debtors	As 31 March 2018 £'000	As 31 March 2019 £'000
Central government bodies	21	6
Other local authorities	1,086	36
NHS bodies		-
Public corporation & trading funds		-
Other entities & individuals	266	625
Total	1,373	667

22 CURRENT LIABILITIES

Current Liabilities	As 31 March 2018 £'000	As 31 March 2019 £'000
Transfer value payable (joiners)	93	499
Sundry Creditors	1,500	565
Benefits payable	340	331
Total	1,933	1,395

Analysis of Creditors	As 31 March 2018 £'000	As 31 March 2019 £'000
Central government bodies		
Other local authorities		542
NHS bodies	75	235
Public corporation & trading funds		-
Other entities & individuals	1,858	618
Total	1,933	1,395

23 ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2019 was £1.169m (2017/18 £1.104m). During the year contributions in totalled £0.283m, while payments out of the AVC fund totalled £0.253m. In accordance with regulation 4(2) (b) of the Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2009 (SI 2009/3093), AVCs are not included in the Pension Fund accounts.

24 AGENCY SERVICES

There are no agency services agreements in place

25 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £0.62xm (2018: £1.98m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.004m (2018: £0.004m). The Council charged the Pension Fund £0.263m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders

Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2018 £'000	2019 £'000
Due (to)/from Scottish Borders Council	1,037	(343)

Governance

All members of the Pension Fund Committee were active member of the pension fund during 2018/19. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

25 (A) KEY MANAGEMENT PERSONNEL

The key management personnel of the fund is Scottish Borders Council Chief Financial Officer. Total remuneration payable is set out below

31 March 2018 £000's		31 March 2019 £000's
87	Short-term benefits	89
-	Post-employment benefits	-
2	Other long-term benefits	2
-	Termination benefits	-
-	Share-base payments	-
89	Total	91

The figures above reflect the full remuneration as reported in Scottish Borders Council Accounts. The Pension Fund is recharged 10% of the above post.

26(A) CONTINGENT ASSETS

One of the admitted body employers in the Pension Fund holds an insurance bond to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

26(B) CONTINGENT LIABILITES

As a result of a ruling in The Court of Appeal (the McCloud judgement) in December 2018, which relates to age discrimination arising from public sector pension scheme transition arrangements, there is the potential for an impact on employer pension liabilities for LPF. Hymans Robertson LLP has advised that given the uncertainty around this judgement, with the government awaiting news of its right to an appeal, it is too early to know what the likely effect may be on LGPS members' benefits.

27 POST BALANCE SHEET EVENTS

The unaudited Statement of Accounts was issued by the Chief Financial Officer on 25 June 2019. Events taking place after this date are not reflected in the financial statements or notes. There have been no material event since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

The Fund has received updated Private equity/Infrastructure statements for 31 March 2019. The variance between the valuation included in the accounts and the updated statements amount to £0.Xm. The amount is not material and therefore no adjustment has been made in the Net Asset Statement or notes.

INDEPENDENT AUDITOR'S REPORT

● **Scottish Borders Council Pension Fund**
Actuary's Statement as at 31 March 2017

Introduction

The last full triennial valuation of the Scottish Borders Council Pension Fund was carried out as at 31 March 2017 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 28 March 2018.

Asset value and funding level

At 31 March 2017, the smoothed value of assets was £654m which was 114% of the liabilities valued on an ongoing basis. The corresponding funding level at the previous valuation as at 31 March 2014 was 101%.

Contribution rates

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The 2017 valuation certified a total primary rate of 20.6% p.a. of pensionable pay. Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Assumptions

The assumptions used to value the liabilities at 31 March 2017 are summarised over:

Assumptions as at 31 March 2017	
Discount rate	5.0%
Pay increases	3.8%
Pension increases	2.8%
Mortality	S2PA tables with a multiplier of 110% for males and 100% for females 2016 CMI Model with a long-term rate of improvement of 1.5% p.a. and smoothing parameter of 7.5
Retirement	For each tranche of benefit, the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.
Commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension

The next valuation is due to be carried out as at 31 March 2020.

Barnett Waddingham LLP

GLOSSARY OF TERMS

ACTIVE MANAGEMENT

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or asset allocation. Compare this with Passive Management.

ASSET ALLOCATION

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short term tactical changes might be made to achieve short-term advantage.

ALTERNATIVE ASSETS

This is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult.

BALANCED MANAGEMENT

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with specialist management.

BENCHMARK RETURN

This is calculated against the Fund's chosen "benchmarking" group, which comprises a composite of different market indices. The indices in use cover all the markets in which the Fund is invested.

CONTRIBUTING MEMBER

This is someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an "active" member.

DEFERRED MEMBER

This is someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.

GROWTH MANAGER

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with value manager.

INVESTMENT MANAGER/FUND MANAGER

A person or organisation that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients

MANDATE

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

PASSIVE MANAGEMENT

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with active management.

PENSIONER/DEPENDENT MEMBER

This is someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.

POOLED FUND

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

REALISED GAIN OR LOSS

Only when an investment is sold does the Fund actually make a profit or loss.

Realised profits and losses are those that have actually arisen via sales throughout the year.

RETURN

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

RISK

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

SEGREGATED FUND

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

SPECIALIST MANAGEMENT

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

UNREALISED GAIN OR LOSS

The Statements of Accounts are based on the market value of investments at 31 March 2016. This means that these show what profit or loss would have made if the Fund had sold all its investments on that day. The result is a notional "unrealised" profit or loss.

VALUE MANAGER

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

VESTED/NON VESTED OBLIGATIONS

Vested obligations refer to employee benefits that are not conditional on future employment. Non vested obligations refer to employee benefits that are conditional on future employment.

PENSION FUND STRAIN

The cost to employers of the early release of pension benefits.

ADDITIONAL INFORMATION

Key Documents Online

You can find further information on our website, www.scotborders.gov.uk/pensions, including the following documents:

- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Training Policy
- Business Plan 2019/20 to 2021/22
- Actuarial Valuation Statement 2017

Fund Advisers

Actuaries:	Hymans Robertson
Auditors:	Audit Scotland
Bankers:	Bank of Scotland
Investment Consultancy:	KPMG
Investment Custodians:	Northern Trust

Investment Managers

Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G, Partners Group, Permira, Blackrock and Macquarie

Additional Voluntary Contributions (AVC) Managers: Standard Life

Contact Details

For further information and advice on administration, benefits and scheme membership please contact

Graeme Wilson	Telephone 01835 – 824000	Ext 5341
	E-mail gwilson@scotborders.gov.uk	

Scheme members should have a copy of the “Employees’ Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council”, and can obtain their own copy of an Annual Report on request.

or visit Scottish Borders Council Pension Fund website at:
www.scottishborderscouncilpensionfund.org

For further information on the Fund’s investments, please contact

Kirsty Robb	Telephone 01835 – 825249
Pension & Investment Manager	E-mail krobb@scotborders.gov.uk

INFORMATION UPDATE
Briefing Paper by Chief Financial Officer

PENSION FUND COMMITTEE & PENSION BOARD
13 June 2019

1 PURPOSE AND SUMMARY

- 1.1 **This briefing paper is to provide members of the Committee and the Board with an update on a number of areas which are being monitored and areas where work is progressing. Full reports on the individual areas will be tabled as decisions and actions are required.**

2 GMP RECONCILIATION

- 2.1 Stage 2 of the GMP Reconciliation is progressing by ITM Limited on behalf of Scottish Borders Council. This stage of the project is the reconciliation of discrepancies between HMRC and Scottish Borders Council pension records for Active or Deferred members and Pensioners.
- 2.2 Scottish Borders Council received the latest report from ITM on 29 May 2019 and these are summarised below:-

53%	Percentage of fund members have been reconciled
45%	Percentage of fund members who are out with the scope for reconciliation. Generally members who have no liability under the scheme having either pre 6 April 1978 service only or only post 5 April 2016 service.
2%	Percentage of fund members who are still unreconciled. These are awaiting data from HMRC or further investigation is required by gathering historic payroll details
100%	

- 2.3 There are 167 members require investigation SBC with the remaining 307 members currently awaiting updates from HMRC. Scottish Borders Council continue to receive monthly updates on the progress of the GMP Reconciliation exercise from ITM Limited. On completion of the Stage2 exercise, HRSS Manager will liaise with ITM Ltd regarding the next phase on Stage 3 Reconciliation of the values – a further update on this stage will be discussed at the September meeting.

3 PENSION REGULATOR SCHEME RETURN – DATA SCORING

- 3.1 There has been no further update on the data scoring due to other work pressures in the Administration Team. The formal rectification plan has not been finalised and this will now be brought to the September 2019 meeting

4 SCHEME ADVISORY BOARD

- 4.1 The Scheme Advisory Board (SAB) met on 24th April 2019. The agenda contained the following items
- Structure Review – draft report
 - Transparency Code
 - Governance Review – Training & Communication
 - SAB Work Plan
 - Financial reporting
 - SPPA update
- 4.2 The summary note from the meeting is currently not available.

5 PLASTICS RI ENGAGEMENT

- 5.1 The plastic waste issue is currently one of the fastest growing environmental topics on the political agenda. Governments and consumers are becoming increasingly aware of the substantial impact of plastic the environment and on health.
- 5.2 The Pension Fund as an investor believes that a positive approach to Environmental, Social and Corporate Governance issues can positively affect the financial performance of investments, whereas a failure to address these considerations can have a detrimental effect.
- 5.3 Pension Fund Officers from Scottish Funds and Northern Ireland meet on a regular basis to share best practice and to look at opportunities to work collaboratively. One of the areas currently being discussed is collaborative working around ESG engagement.
- 5.4 Strathclyde Pension Fund are currently investigating how the group can work collaboratively with GES who are an Engagement Services Manager. GES will if engaged target specific companies to reduce plastic use. This is done using a constructive process of engagement.
- 5.5 The Fund is working with Strathclyde and GES to investigate the best way for the Fund to be part of the engagement whilst controlling its involvement. This will be progress further at the next officers meeting on 20 June.

6 TRAINING OPPORTUNITIES

- 6.1 The next training event to be organised by the Scottish Officers group has been scheduled for 3rd September 2019 at COSLA. Agenda items are currently being developed.
- 6.2 Baillie Gifford will be holding their Local Authority Training & Seminar event of 9-10 October 2019 in Edinburgh. The fund will be limited to 6 places for the event. Names of those wishing to attend are to be given to Kirsty Robb by 26th June.

7 MEETING DATES

- 7.1 Dates of future meetings are listed below for information.

12 September 2019 29 November 2019

5 March 2020 11 June 2020

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249
Anthea Green	HR Shared Services Team Leader, 01835 826722

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