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PENSION FUND COMMITTEE AND PENSION BOARD MONDAY, 22 JUNE 2020

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held on
MONDAY, 22 JUNE 2020 at 10.00 AM.

The meeting will be conducted remotely by Microsoft Teams live event. Arrangements are in place to stream the meeting for public viewing. Further information and a link will be provided on the Council's website before the meeting.

J. J. WILKINSON,
Clerk to the Council,

16 June 2020

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 5 - 8) Minute of Meeting held on 10 March 2020 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Funding Strategy Statement & Statement of Investment Principles 2020 (Pages 9 - 54) Consider report by Executive Director Finance & Regulatory. (Copy attached).	5 mins
6.	Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2019/20 (Pages 55 - 58) Consider report by Chief Officer Audit & Risk. (Copy attached).	10 mins
7.	Governance Policy & Compliance Statement 2019 (Pages 59 - 78) Consider report by Executive Director Finance & Regulatory. (Copy attached).	5 mins
8.	Pension Administration Performance 2019/20 (Pages 79 - 88) Consider report by Service Director HR and Communications. (Copy attached).	10 mins

9.	Training Plan 2020/21 (Pages 89 - 104) Consider report by Executive Director Finance and Regulatory. (Copy attached).	5 mins
10.	Business Plan 2020/21 - 2022/23 (Pages 105 - 126) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins
11.	Risk Register Update (Pages 127 - 144) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins
12.	Budget out-turn (Pages 145 - 148) Consider report by Executive Director Finance & Regulatory. (Copy attached).	5 mins
13.	Draft Annual Report (including Annual Accounts) (Pages 149 - 240) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins
14.	Any Other Items Previously Circulated	
15.	Any Other Items which the Chairman Decides are Urgent	
16.	Items Likely To Be Taken In Private Before proceeding with the private business, the following motion should be approved:- "That under 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."	
17.	Minute (Pages 241 - 242) Private Section of Minute of Meeting held on 10 March 2020 to be noted and signed by the Chairman. (Copy attached).	2 mins
18.	Quarter Performance to 31 March 2020 (Pages 243 - 290) Consider report by Isio Investment Advisor. (Copy attached).	10 mins
19.	Infrastructure Update and Performance (Pages 291 - 310) Consider report by Executive Director Finance & Regulatory. (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, Mr M Everett, 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 Council Chamber, Council Headquarters, Newtown St Boswells on Tuesday, 10 March 2020 at 10.00 am

Present:- Councillors D Parker, S Aitchison, G Edgar, C Hamilton, D Moffat, S Mountford, S Scott, Mr M Drysdale, Mr M Everett, Ms K M Hughes, Ms C Stewart and Ms L Ross

Apologies:- Councillor J Brown, Ms K M Hughes, Ms H Robertson.

In Attendance:- Executive Director Finance and Regulatory, Pensions and Investment Manager, HR Shared Services Manager, Principal Consultant (KPMG), Democratic Services Officer (J Turnbull)

Also in Attendance:- Mr D Bell, Unite.

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 17 December 2019

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 held on 10 February 2020.

DECISION

NOTED.

3. **RISK REGISTER UPDATE**

With reference to paragraph 3 of the Minute of 17 December 2019, there had been circulated copies of a report by the Executive Director Finance and Regulatory, which formed part of the risk review requirements and provided the Pension Fund Committee and Pension Board with an update on progress of the actions taken by management to mitigate these risks, a review of any new risks and highlighting any changes to any of the risks contained in the Risk Register. Identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. A full risk review had been undertaken on 15 April 2019 and the revised Risk Register approved by the Joint Pension Fund Committee and Pension Board on 13 June 2019, with an update of the actions undertaken on 10 March 2020. Appendix 1 to the report detailed the risks within the approved Risk Register which had been identified management actions and the progress of these actions to date. The Pensions and Investment Manager, Ms Robb, highlighted that all members of the Pension Fund Committee and Pension Board had completed the Trustees' Toolkit. In response to a question regarding the implications of the coronavirus on the triannual valuation, the Executive Director Finance and Regulatory, Mr Robertson, advised that the overall funding level could reduce. However, it was anticipated that the Actuary would take cognisance of exceptional circumstances when setting the employer contribution rate.

DECISION

(a) NOTED:

- (i) The management actions progress as contained in Appendix 1 to the report; and**
- (ii) That no new quantifiable risks have been identified since the last review.**

(b) AGREED to a key risk review being undertaken in June 2020 and reporting of progress on the risk management actions.

4. PENSION FUND BUDGET MONITORING TO 31 DECEMBER 2019 AND BUDGET 2020/21

With reference to paragraph 5 of the Minute of 17 December, there had been circulated copies of a report by the Executive Director Finance and Regulatory providing the Pension Fund Committee and Pension Board with an update of the Pension Fund budget to 31 December 2019 and seeking agreement of the proposed budget for 2020/21. The Local Government Pension Scheme (Scotland) Regulations 2014 required Administrating Authorities to ensure strong governance arrangements and set out the standards they were to be measured against. To ensure the Fund met the standards a budget was approved on 7 March 2019 following the recommended structure within the CIPFA accounting guidelines. This report was the third quarterly monitoring report of the approved budget. The report explained the total expenditure to 31 December 2019 was £0.84m with a projected total expenditure of £6.437m against a budget of £6.458m, with the majority of charges by Fund Managers still to be reflected in the expenditure figures. A budget of £6.894m was proposed for 2020/21 reflecting the further implementation of the revised asset allocation strategy approved in September 2018. It was noted that the budget proposed, allowed for the implementation of a members' Self Service portal.

DECISION

AGREED

(a) The projected expenditure for 2019/20 as the revised budget for 2019/20; and

(b) The proposed budget of £6.894m set out in table 4.1 of the report for financial year 2020/21.

5. SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL PLAN 2020/21

There had been circulated copies of a report by Chief Officer Audit & Risk presenting for approval the Internal Audit Annual Plan 2020/21 for the Scottish Borders Council Pension Fund to enable the Chief Officer Audit and Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment. The Public Sector Internal Audit Standards (PSIAS) required the Chief Audit Executive (CAE), the Council's Chief Officer Audit and Risk, to establish risk based plans to set out the areas of internal audit activity, consistent with the objectives of the Pension Fund. A fundamental role of the Internal Audit function was to provide senior management and members with independent and objective assurance, which was designed to add value and improve the organisation's operations. In addition, the CAE was also required to prepare an internal audit annual opinion on the adequacy of the organisation's overall control environment. The proposed Internal Audit Annual Plan 2020/21 for the Pension Fund, detailed in section 4.2 of the report, sets out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process included a clear understanding of the organisation's functions, associated risks and assurance framework. There were resources currently in place to achieve the Internal Audit Annual Plan 2020/21 for the Pension Fund and to meet its objectives. Mr Robertson advised that the Audit & Scrutiny Committee meeting on 9 March 2020, had approved the allocation of five days for the provision of internal audit services to the Pension Fund.

DECISION

AGREED to approve the Scottish Borders Council Pension Fund Internal Audit Annual Plan 2020/21

6. INFORMATION UPDATE

- 6.1 With reference to paragraph 6 of the minute of 17 December 2019, there had been circulated copies of a briefing paper by Executive Director Finance and Regulatory providing members of the Pension Fund Committee and Pension Board with updates on a number of areas which were being monitored and where work was progressing. Full reports on individual actions would be tabled as decision and actions were required.
- 6.2 **GMP Reconciliation**
With reference to paragraph 6.2 of the Minute of 17 December 2019, it was noted that there had been no progress since the previous meeting as the final report from HM Revenue and Customs was still awaited.
- 6.3 **Cessation Policy**
Cessation actions would be reviewed and presented to the next Pension Fund Committee and Pension Board within the Admission Policy and Funding Strategy Statement.
- 6.4 **Members' Self Service**
Following discussion with Aquila Heywood, the pensions' administration software provider, an outline plan had been agreed with the service going live in June 2020.
- 6.5 **Data Quality – Common Data**
The HR Shared Services Manager highlighted that in terms of missing National Insurance numbers, it would not be possible to rectify the Common Data. These were not available due to recipients of the pension benefit being under the age of 16.
- 6.6 **Local Government Valuation – Consultation**
The report explained that the Scottish Public Pensions Agency (SPPA) recently launched a consultation on the frequency of future valuation cycles. The consultation looked at an option to extend it from the current three yearly cycle to four yearly in line with non-fund public schemes. Due to the closing date for responses being 9 March, officers in conjunction with the Actuary, agreed the submission detailed in Appendix 3 to the report. Mr Robertson discussed the responses with the Pension Fund Committee and Pension Board members, who endorsed the submission.
- 6.7 **Scheme Advisory Board**
With reference to paragraph 6.5 of the Minute of 17 December 2019, the Chair, Councillor Parker, advised that the Scheme Advisory Board (SAB) was to undertake work to scope the works required for the next steps on the future structure of the Scottish Local Government Pension Scheme (LGPS). The SAB had accepted that a comprehensive evaluation of the benefits and risk associated with pooling or merging funds was required. Their evaluation would have a significant cost implication as data analysis of different funds would be required to enable a Ministerial decision on the findings. Details of the procurement process and timescales would be considered at the next SAB meeting in March. Following discussion, a number of question were raised: Councillor Parker explained that one of the drivers for change was to encourage investment in infrastructure. However, the Fund was already collaborating with Lothian Pension Fund, on a range of infrastructure investments. Appropriate investment projects were also required to be created by government. With regard to the SAB consultation, the results of which were 9 out of the 11 funds rejected pooling or merging of Funds, Councillor Parker explained that Unison and Lothian Pension Fund appeared to be the main drivers behind the push for merger. If SAB's evaluation recommended a merger, then changes would be implemented by Ministerial direction, parliamentary approval might also be required. Councillor Mountford added that the Convention of Scottish Local Authorities

(COSLA) considered that any merging of funds should not be mandatory. It was noted that a further update would be presented to the next joint meeting and further discussion would follow thereafter.

6.8 **Training Opportunities**

With reference to paragraph 6.8 of the Minute of 19 December 2019, Ms Robb advised that all members had completed their minimum training requirements for 2019/20. The annual training assessment for 2020/21 would be circulated to all members shortly for completion.

DECISION

(a) **AGREED** To endorse the submission to the SPPA consultation, as detailed in Appendix 3 to the report.

(b) **NOTED** the update.

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 17 December 2019.

9. **PENSION FUND INVESTMENT & PERFORMANCE SUB-COMMITTEE**

The Committee noted the Private Minute of the Pension Fund Investment & Performance Sub Committee of 10 February 2020.

MEMBER

Councillor Moffat left the meeting following consideration of the above.

10. **QUARTER PERFORMANCE UPDATE**

The Committee considered a private report by KPMG.

11. **EXIT STRATEGY SB CARES**

The Committee considered a report by Service Director Human Resources and Communications and agreed the recommendation.

12. **INFRASTRUCTURE UPDATE**

The Committee noted a private report by Executive Director Finance and Regulatory updating on infrastructure investment made by the Fund under delegated authority.

The meeting concluded at 11.10 am



FUND STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES 2020

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2020. 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 maintain a Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP), which are reviewed on a regular basis.
- 3.2 Local Government Pension Scheme (LGPS) 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 13 June 2019. A review has been undertaken of the Strategy and no changes have been identified.

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 updated deferred members number.	
4.10	Updated to reflect revised fund managers	
4.21	Updated to reflect name change following KPMG restructure to Isio	
4.23	Updated to contract end with State Street as transition manager. No new contact currently in place	
5.2	Updated to reflect Committee decision to allow "Stock lending" of segregated equity funds.	
7.1	Updated to reflect Audit & Scrutiny Committee name.	

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. A risk register is maintained and reviewed quarterly in line with CIPFA Pension Fund Risk Register guidance.

6.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

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, the Chief Officer Audit and Risk, the Service Director HR, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

David Robertson
Executive Director Finance & Regulatory
Author(s)

Signature

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

Background Papers:

Previous Minute Reference: Pension Fund Committee, 13 June 2019

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.

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SCOTTISH BORDERS COUNCIL PENSION FUND FUNDING STRATEGY STATEMENT 2020

Finance

Chief Executive

Draft for approval – Pension Fund Committee 22 June 2020

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 XX June 2020.

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
2020.1	Final draft for Pension Fund Committee approval	22 June 2020	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 2020

**Finance
Chief Executive
Draft for Approval- Pension Fund Committee - 22 June 2020**

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 2,909 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 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 per three year period.
- 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, investing with a number of specialist infrastructure Managers.

- 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	ISIO (formally 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 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 In September 2019 the Pension Fund Committee authorised “Stock Lending” of its segregated equities within strict programme parameters administered by Northern Trust. The also participated in stock lending within the pooled UBS Equities. 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 Scrutiny 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
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
Draft 2020	Final draft of SIP to present to Pension Fund Committee on 6 June 2020	June 2020	K Robb

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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SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2019/20

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

22 June 2020

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 2020, 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 2019/20 includes the required 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 operating in 2019/20 within the Scottish Borders Council Pension Fund are adequate, 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 2019/20.

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 2019/20 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 2019/20

4.1 The Chief Officer Audit & Risk’s opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control operating in 2019/20 within the Scottish Borders Council Pension Fund are adequate, and governance and risk management arrangements are effective.

4.2 During 2019/20 the following assurance reviews were undertaken:

- Governance and decision-making
- Risk Management
- Pensioners Payroll (as part of the Scottish Borders Council audit on Business World ERP System Key Controls)

4.3 The Fund has effective governance arrangements in place through the Pension Fund Committee and Board that support scrutiny and transparency of decisions made. The Business Plan 2019/20 to 2021/22 for the Pension Fund was approved by the Pension Fund Committee and Board on 13 June 2019. It identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund. A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Pension Fund Committee and Board on 17 December 2019.

4.4 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.

4.5 Internal Audit work on Business World ERP System Key Controls included the testing of Pensioner Payroll payments. Specifically this confirmed that comprehensive assurance can be placed on key controls and processes to ensure that payroll transactions are valid, complete and accurate.

4.6 The Internal Audit Annual Assurance Report 2019/20 has been used to inform the Pension Fund’s Annual Governance Statement 2019/20, and the Governance Policy and Compliance Statement.

4.7 The 2019/20 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 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues associated 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 2019/20.

6.2 The Council's Executive Director Finance & Regulatory, Chief Legal Officer (Monitoring Officer), Service Director HR and Communications, Clerk to the Council, Pensions & Investments Manager, HR Shared Services Manager, 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: Joint Pension Fund Board & Committee 13 June 2019

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2019

Report by Executive Director Finance and Regulatory Services

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

22 June 2020

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 2019/20.**
- 1.2 Appendix 1 contains the revised Governance Policy and Compliance Statement for the Pension Fund 2020.
- 1.3 The Governance Compliance Statement for 2019/20 is included in Appendix B to the policy and demonstrates that the Pension Fund is in full compliance with published best practice guidance.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the revised Governance Policy and Compliance Statement 2020 is approved and the Governance Compliance Statement is agreed for inclusion in the Pension Fund Annual Report and Accounts 2019/20.**

3 BACKGROUND

- 3.1 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 Administering Authority). The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014.
- 3.2 It is a requirement of the LGPS Regulations that the Pension Fund maintains a Governance Policy and Compliance Statement. The statement is reviewed on an annual basis as part of the annual compliance review.

4 GOVERNANCE POLICY AND COMPLIANCE STATEMENT

- 4.1 A review of the Governance Policy was undertaken during 2019/20 and resulted in only minor changes. The revised Policy and Statement are contained in Appendix 1.
- 4.2 References to Chief Financial Officer has been updated to reflect new title of Executive Director Finance & Regulatory.
- 4.3 References to Chief Officer Human Resources updated to reflect new title of Service Director Human Resources & Communications.
- 4.4 Para 7.3 has been updated to reflect the name change of the Fund's investment consultant KPMG to Isio.
- 4.5 Appendix A has removed reference to SB Cares LLP and SB Supports LLP that have now merged with Scottish Borders Council.

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 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

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 Service Director of HR & Communications 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
Executive Director Finance & Regulatory

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Committee, 13 June 2019

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SCOTTISH BORDERS COUNCIL PENSION FUND

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

2020

**Finance
Chief Executive
Version: 2020 1.0
draft: Pension Fund Committee XX**

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 XX June 2020.

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

One Member of the Executive

Three Members of the Administration

- 3.6 The Convener of the Council is the Chairman of the Committee and the presence of four Members of the Council constitutes a quorum.
- 3.7 The Independent Investment Consultant, the Chief Executive, Executive Director Finance & Regulatory, 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 consists 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 of the Pension Fund Committee 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 Executive Director Finance & Regulatory

- i The Executive Director Finance and Regulatory is the Council's Chief Financial Officer. He is the Officer with responsibility for ensuring the 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 Service Director Human Resources and Communications

- 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 Isio (formally 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)
- 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 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 eight members (four employer representatives and four 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’s Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p>

Principle		Full Compliance	Comments
			The Investment and Performance Sub-Committee (the Sub-Committee) established under the Committee and its remit is set out in the Scheme of Administration. Membership of the Sub-Committee is seven elected Members from the Pension Fund Committee and two (non-voting) members from the Pension Board.
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 the Pension Fund Committee for approval. Two members from the Pension 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	Yes	The Pension Board and Pension Fund Committee meet jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Pension Board. The Independent Investment Consultant, Finance and HR Officers also attend in an advisory capacity.

Principle		Full Compliance	Comments
	professional observers, and (iv) expert advisors (on an ad-hoc basis)		
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training They 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. The Scheme of Administration for the Pension Fund Committee, and the Pension Board Constitution, provide for joint meetings, with equal rights to receive papers and access meetings.
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 the Council’s Code of Governance along with the Members’ 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 six 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 the Council’s Code of Governance requires the declaration of Members’ interests for all committees as a standard agenda item.
Voting			
A	The policy of individual administrating authorities on voting rights is clear and	Yes	This is set out in the Council’s Scheme of Administration and the Pension Board’s Constitution

Principle		Full Compliance	Comments
	transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.		
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	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	The training policy for all members of the Pension Board and Pension Fund Committee is approved annually at the joint meeting 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	The Annual Training Plan produced and implemented with logs of training attendance maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or	Yes	The joint meetings of the Pension Fund Committee and Pension Board are quarterly.

Principle		Full Compliance	Comments
	committees meet at least quarterly		
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the main committee dates.	Yes	The Investment Sub-Committee meets every four months between the 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	The Pension Board formally provides for 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 as detailed in the Scheme of Administration.
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 the Committee as having a remit which covers all matters relating to the Council's role as 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 if 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 the Council's 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

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PENSION ADMINISTRATION PERFORMANCE 2019/20

Report by Service Director HR and Communications

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the Pensions Administration Performance for 2019/20 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 2019/20 as it will be included in the Fund's Annual Report and Accounts.
- 1.3 During 2019/20 all payments were made on time with the exception of one employer, the three payments that were late were all received within two working days of the due date.
- 1.4 Performance has remained at the expected high standard, which is testament to the dedication of the staff within the Pensions Team, having coped with the resignation of two members of staff and the TUPE transfer of SB Cares back to Scottish Borders Council during the reporting period.
- 1.5 The Annual Benefit Statements were issued in advance of the 31 August deadline in all instances.
- 1.6 The Employer Liaison Meeting scheduled for March was not held due to the COVID19 situation, a review of the communication methods for future years will be carried out and if circumstances allow we will look to hold the employers event to hold on an annual basis, which will be scheduled in due course.
- 1.7 Due to the COVID19 situation no payslips have been issued to pensioners, this along with information on the application of the Pensions Increase and a link to the Local Government Association FAQ's on COVID19 and the LGPS have been published on the Pension Fund Website.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee notes the Pension Administration Performance for 2019/20 as set out in Appendix 1 and approves its inclusion in the Pension Fund Annual Report and Accounts 2019/20.**

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 2019/20

- 4.1 **Appendix 1** contains the Pensions Administration Performance Report for 2019/20 as it will be included in the Fund's Annual Report and Accounts.
- 4.2 Performance has been at a high standard throughout the reporting year. This is testament to the dedication of the staff within the team, having coped with the resignation of two members of staff during the year and the increased workload from the TUPE transfer of SB Cares back to Scottish Borders Council. 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 annual benefit statements, to all Active and Deferred scheme members, and did so by 14 August 2019 ahead of the 31 August deadline. There were 6,760 statements issued this year.
- 4.4 During 2019/20 HR Shared Services recorded 2,236 instances where contact was made with the team to query information relating to their Pension. The recorded number is down on the previous year, however, this does not mean that the number of contacts reduced, there have been periods throughout the year when the Team have been under pressure to deliver on multiple fronts with reduced staffing levels and not all enquiries/contacts were recorded. This was a conscious decision to ensure we continued to pay pensioners on time.
For all instances recorded all were responded to within the 5 day target, with the vast majority being provided on the same day. There were 243 queries logged relating to Annual Benefit Statement all of these met the 20 day target for responding.
- 4.5 **Employer Performance Measures**
During 2019/20 there were three instances where payments were received late, these were all from the same employer. The payments that were made after the target date were all received within a two calendar days. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.
A letter has been issued to Jedburgh Leisure Facilities Trust to remind them of their requirements to submit monies by the 19th of the month to ensure they comply with the scheme regulations and the terms of their admission to the Fund.

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.

A new classification has been added to this years report to enable the capture of changes in positions where the scheme member remains in employment with the same employer but has gained employment in a new position. This accounts for around as many changes on a monthly basis as full starters and leavers. This was compounded this year with the TUPE transfer of employees from SB Cares to Scottish Borders Council, seeing 718 changes required – a much bigger change than the change of a position within the same employer.

- 4.7 During 2019/20 the Employer Liaison meeting was not held due to the COVID19 situation. In place of the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years payroll.

In light of the current situation and the likelihood of ongoing changes to working practices within the Council we are going to review the methods of communication and look to agree an amended approach with all employers within the Fund. If circumstances allow we will continue to hold an annual employers event, even if this is done as a virtual event using Microsoft Teams, and this will be 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 In response to the COVID19 situation additional information was posted within the Scottish Borders Council Pension Fund website, this included the following: -

- Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
- Information regarding Pensions Increase
- COVID19 Pension Fund Update with a link to the Local Government Association FAQ's for LGPS members

To date there have been 18 pensioners signed up for online payslips. When we next write to all pensioners we will make them aware that this is an available option for viewing payslips, ordinarily we only print when there is a variance in excess of £5.00 from the previous period. There has also been amendments made to the communications for new pensioners to make them aware that this is available.

Steps are being taken to start to collect email addresses for all active, deferred and pensioners to enable all communications to be delivered in an electronic means. Meeting the Council's Fit for 2024 agenda to make use of technology wherever possible.

- 4.9 During 2019/20, 41,744 payments were processed, an increase from 40,416 in 2018/19, to pensioners for a total of £17.831m. In addition to this, 146 payments were also processed, an increase from 134 payments in 2018/19, to pensioners who now reside overseas for a total of £69,142, 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.

4.10 **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
AMEY	18.00
CGI	21.10
Live Borders	18.00
Jedburgh Leisure Facilities Trust	18.00
Scottish Borders Housing Association	20.30
South of Scotland Enterprise	20.60

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 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website demonstrates that equality, diversity and socio-economic factors have duly been considered when preparing 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 either the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 The Council's Executive Director Finance & Regulatory, Chief Legal Officer (Monitoring 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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APPENDIX 1

PENSION ADMINISTRATION PERFORMANCE 2019/20

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	812	100%
Change notification – within 20 days	1,429	100%
Retirement info – at least 20 working days before	97	100%
Early leaver notification – within 20 working days	875	100%
Death in service notification – within 10 working days	7	100%

Change notifications are a new category that has been captured this year as it results in significant amount of work for the Pensions Admin team and it is worth quantifying. Included in the above figure are the 718 changes that were required following the re-integration of SB Cares with Scottish Borders Council, where all employees were TUPE transferred. This was a significant piece of work that had to be completed in addition to normal changes in a short period of time.

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	8	-	100%
CGI	12	-	100%
South of Scotland Enterprise	1	-	100%

The payments that were made after the target date were all received within a maximum of 2 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	135	20 days	45.93%
Estimates – Transfer Out	113	20 days	56.64%
Estimate – All Other	911	10 days	77.83%

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 2019/20.

Type of Query	Volume	Target	%age Met
Admitted/Scheduled Bodies Employer Queries	102	5 days	100%
Advice on AVC applications	41	5 days	100%
Advice on Nominations and/or Death Grant	71	5 days	100%
Advice on Options at Retirement	46	5 days	100%
Annual Benefit Statement Queries	243	20 days	100%
Assistance with form completion e.g. retirement declaration	100	5 days	100%
Change of Address/Bank Details	285	5 days	100%
Divorce	5	5 days	100%
DWP requesting details of Pensioner Payments	12	5 days	100%
Enquiries in relation to Deceased Pensioners	349	5 days	100%
ER/VS general advice	12	5 days	100%
Flexible Retirement	63	5 days	100%
General advice	140	5 days	100%
Internal forms requesting details of Pensioner Payments	68	5 days	100%
Opting In to LGPS	21	5 days	100%
Opting Out of LGPS	75	5 days	100%
Pension Payment queries including tax issues	143	5 days	100%
Refunds Enquiry	50	5 days	100%
Retiral Enquiry	325	5 days	100%
Service Breaks	9	5 days	100%
Transfer In Enquiry	53	5 days	100%
Transfer Out Enquiry	23	5 days	100%
Total	2,236		

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	See Below
Benefit Statements	by end of August	14 th August 2019

The sixth liaison meeting with all Admitted and Scheduled Bodies was scheduled for March 2020, however, this was not held due to the COVID19 situation. Going forward we will review the employer communications and if circumstances allow continue to hold the liaison meeting towards the end of the financial year either as a physical or virtual meeting where we will discuss up-coming legislative changes and requirements for the year end processing.

Key Administration Tasks

Task	Total received
New entrants	764
Early leavers	432
Retirements	217
Deaths in service	7
Deaths in deferment	5
Deaths in retirement	108
New Widows(ers), Child Pensions	46
Estimates	911
Pension credit members	-

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TRAINING PLAN 2020/21

Executive Director Finance and Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

22 June 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report compares the actual 2019/20 attendance for Pension Fund Committee and Board Members to the requirements detailed in the current Training Policy approved in June 2017. The report proposes key areas of training for 2020/21 in-line with the is policy based on the Skills Knowledge assessment recently undertaken.**
- 1.2 In line the training Policy, the Pension Fund Committee and Pension Fund Board are required 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 2020 and scores received are summarised in the table in paragraph 5.1 and in more detail in Appendix 2.
- 1.4 The proposed Training for 2020/21 will focus on Financial Markets and Products, Investment performance & risk management, Pension Administration and General Pension Fund Regulatory environment. 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) **Notes the outcome of the 2019/20 training programme and the attendance levels for training and meetings**
 - (b) **Notes the outcome of the Knowledge and Skills Self-Assessment for 2020/21; and**
 - (c) **Approves the Training areas for 2020/21 set out in para 6.2 and agrees that all members should prioritise attendance at training events wherever practicable.**

3 BACKGROUND

- 3.1 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 Administering Authority). The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. It is a requirement of the LGPS Regulations that the Pension Fund maintains a training policy and monitors adherence to this policy on an annual basis.
- 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 ANNUAL UPDATE

- 4.1 The 2019/20 training programme approved at the 13 June 2019 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 the training plan approved on 13 June 2019 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 of Members	Number of Members
5	2	1
4	1	2
3	1	2
2	1	2
Less than 2	2	1
Total Members	7	8

- 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 Board.

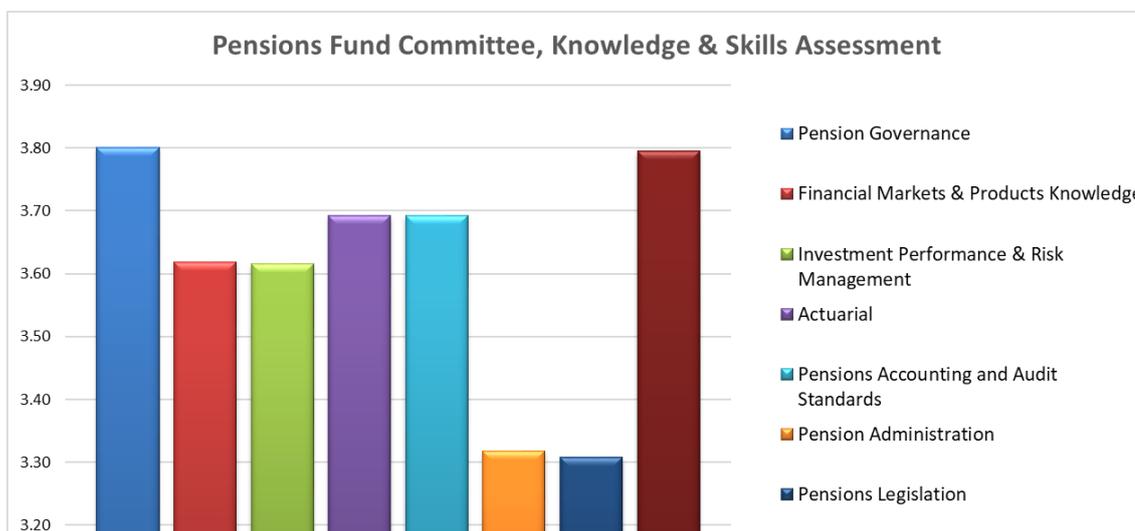
4.7 Members are also required to attend at least two of the Joint Pension Fund Committee and Pension Fund Board meetings per year. The table below shows the attendance rates for both the Pension Fund Committee and Pension Fund Board Members.

No of events	Committee Members	Board Members
4	2	2
3	3	3
Less than 2	2	3
Total Members	7	8

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 2020/21 meetings will be circulated following agreement at Council on 25th June.

5 TRAINING NEEDS ANALYSIS

5.1 To ensure training needs are met, all Members of the Pension Fund Committee and Board are required to complete a knowledge and skills assessment questionnaire. An analysis of assessment returned are summarised in the chart below and detailed in Appendix 2. The scores are measured between zero and five, with five being full knowledge and skills held.



5.2 The completed knowledge and skills assessment returns for 2019 shown a slight decline in the average overall score from 2018. This is due to the turnover of two Board Members. The revised assessment returns have highlight some more specific technical areas which could not previously be identified in the assessment return.

6 TRAINING PROGRAMME

6.1 The information contained in the returned knowledge assessment forms the basis for the training plan in 2020/21. The plan will focus on key areas, which scored the lowest average score. These key areas are detailed in the table over the page.

2020-21 training plan	
Topic	Training Objective
Financial Markets and Products	To increase understanding of current markets and investment products and also highlight new investment products and markets
Investment performance & risk management	To increase understanding of investments performance measurement.
Pension Administration	To increase knowledge and understanding of the pension administration function and key processes.
General Pension Fund Regulatory environment	To increase general knowledge and awareness of the regulatory environment for general Pensions.

6.2 Due to COVID 19 and social distancing requirements some of the annual training events and seminars may not be possible in the usual format. Many of the organisers of these events are however undertaking and promoting virtual training opportunities. Virtual training, which meets the needs identified above, will be highlighted to Members as they arise.

6.3 The Local Government Pension Scheme (Scot) Officers Group will be arranging the 2020 training event to cover many of the areas identified above. Due to COVID19 the event which is usually held at COSLA offices may be a virtual event.

6.4 The formal and virtual 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.

- 6.5 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 met 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 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

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
Executive Director Finance & Regulatory

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: 13 June 2019 - 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.

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 – Average scores 2020

Pension Governance	Average score
Knowledge of the role of the administration authority in relation to the LGPS	3.8
Understanding of how the roles and powers of the Administering Authority, Scheme Advisory Board, The Pension Regulator and the Pension Ombudsman relate to the Scheme.	3.7
Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	3.8
Understanding of the role and responsibilities of the Pension Fund Committee in relation to the Fund.	4.3
Understanding of the role and responsibilities of the Pension Fund Board in relation to the Fund.	3.9
Awareness of the role and statutory responsibilities of the Monitoring Officer	3.9
Knowledge of the stakeholders of the Pension Fund and the nature of their interests.	4.1
Knowledge of how the Pension Fund management of risks are monitored and managed.	3.9
Knowledge of consultation, communication and involvement options relevant to stakeholders.	3.3
An understanding of how conflicts of interest are identified and managed	3.8
An understanding of how breaches of law are reported.	3.2
Awareness and understanding of Annual Governance Statement	3.9
Governance overall	3.8
Financial Markets knowledge	
An understanding of the risk and return characteristics of the main assets classes (equities, bonds, property etc.)	3.8
An understanding of the role of these asset classes in the long-term pension fund investing.	3.8
An awareness and understanding of the Funds statement of Investment Principles (SIP) and the investment strategy decisions	3.7
Awareness and understanding of the Funding Strategy Statement (FSS)	3.4
Broad understanding of the workings of the financial markets and of the investment vehicles available to the Pension Fund and the nature of the associated risks.	3.8
Understanding of the limits placed by regulation on the investment activities of Local Government Pension Funds	3.0
Understanding of how the Pension Fund interacts with taxation system in the UK and overseas in relation to investments	2.7
General understanding of the role of the Global Custodian	2.5
Financial Markets overall knowledge	3.6
Investment Performance & Risk Management	
Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long term risks	3.8
Awareness of the Myners principles of performance management and the approach adopted by the administering authority.	3.2
Overall Investment Performance & Risk Management knowledge	3.6
Actuarial	
General understanding of the role of the Fund actuary.	3.9
Knowledge of the valuation process including developing the Funding Strategy.	3.8

Broad understanding of the implications of accepting new employers into the Fund.	3.8
Understanding of the implications of employers leaving the fund and of cessation calculations	3.9
General understanding of importance of employer covenant and relative strengths of the covenant across the fund employers.	3.8
General understanding of relevant considerations in relation to outsourcings and bulk transfers.	2.8
Actuarial Overall	4
Pensions Accounting and Audit Standards	
Understanding of the Accounts and Audit regulations and legislative requirements relating to internal controls and proper accounting practice.	3.5
Understanding of the role of both internal and external audit in the governance and assurance process	3.9
Pensions Accounting and Audit Standards Overall	3.7
Pension Administration	
Understanding of the Local Government Pension Scheme benefits structure	3.7
Knowledge of Pension Administration Strategy and delivery	3.6
Knowledge of how discretionary powers operate	3.3
Understanding of required and adopted scheme policies and procedures relating to:- Member data maintenance & record keeping processes, Internal dispute resolution, Contributions collection, Scheme communication & materials	3.2
Understanding of best practice in pension administration	3.3
Understanding of how Pension Fund interacts with taxation system in UK and overseas in relation to benefits administration	2.9
Understanding of AVC arrangements exist and principles relating to the operation of these, choice of investments offered, providers investment * fund performance and payment schedule of arrangements.	3.2
Pension Administration Overall	3.3
Pensions Legislation	
General understanding of pensions legislative framework in the UK	3.3
Overall understanding of legislation and statutory guidance specific to Local Government Pension Scheme (LGPS).	3.4
Appreciation of LGPS discretions and how the formulation of discretionary policies impacts on the Pension Fund, employers and local taxpayer.	3.2
Regularly updated appreciation of the latest changes to the scheme rules	3.4
Pensions Legislation Overall	3.3
Responsible Investment	
Awareness and understanding of Statement of Responsible Investment	3.7
Understanding of fiduciary duties in relation to responsible investments	3.7
Awareness and understanding of risks, opportunities and impacts of decisions in relation to investments and impact on the Fund and its beneficiaries.	4.0
Responsible Investment Overall	3.8



BUSINESS PLAN 2020/21 – 2022/23

Report by Executive Director Finance & Regulatory

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

22 June 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the Pension Fund Business Plan 2020/21 – 2022/23.**
- 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 2020/21 – 2022/23.
- 1.3 The Business Plan 2020/21 – 2022/23 identifies an Action Plan that will be delivered during the next three years to support the aims and objectives of the Pension Fund.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Business Plan 2020/21 – 2022/23 as set out in Appendix 1 is approved.**

3 BACKGROUND

- 3.1 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.
- 3.2 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.

4 PENSION FUND BUSINESS PLAN 2020/21- 2022/23

- 4.1 Appendix 1 contains the proposed Pension Fund Business Plan 2020/21 – 2022/23 (the Business Plan).
- 4.2 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.
- 4.3 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 2020/21 – 2022/23.
- 4.4 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.

5 IMPLICATIONS

5.1 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.

5.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and ensure effective decision making. A full risk register is maintained and monitored regularly in line CIPFA Pension Fund Risk Management guidance.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

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

No changes 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 Service Director HR, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

David Robertson
Executive Director Finance & Regulatory

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, 17 December 2019

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

Business Plan 2020/21 – 2022/23

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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

- **£712.3m Net Assets** under management
- **114%** of estimated liabilities as 31 March 2017 funded – per Triennial Actuarial Valuation
- 17 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

- **11,338 members** – 4,573 actively contributing to the Fund
- **3,856 pensioners** in receipt of LGPS pension from the scheme amounting to **£23.6m p.a. in pension benefit payments**
- 17 Employer Bodies – Scottish Borders Council with 91.1% 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.

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 Initial stages of GMP reconciliation completed, awaiting HMRC Continual review of manual off-system processes to ensure they are fit for purpose and making use of technology where possible Admission of new body to the Fund and creation of new Admission Policy 	<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 functionality 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 Good 3 year performance to March 2020 with investment returns of 3.8% on a rolling 3 year annualised basis compared to a benchmark of 3.0% 1 year performance of -1.8% against benchmark of -1.9%, positive against wider financial markets crash due to COVID 19 First annual report on Responsible Investment monitoring completed Stability of Employer Contribution Rates over successive Triennial Valuations 	<ul style="list-style-type: none"> Further, understand the implications of the membership profile projections and investment income on the Funds cash flow and investment strategy. Monitoring of changes in the Pensions landscape in relation to the “freedom of choice” agenda Further develop the Funds policy and monitoring approach 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 2019/20 Training program Regular reviews of Risk Register No actions arising from External Audit of the Annual Report & Accounts 2018/19 	<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 13 June 2019 with actions monitored and new risks added where required throughout the year. The table below summarises the risk register, as at 31 March 2020, 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	17	26

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

Additional risks were identified and included in the risk register submitted for approval to Pension Fund Committee on 22 June 2020. These risks are shown below

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Risk	Inherent Risk Score	Controls/Mitigating Action(s)	Residual Risk Score
1.11 International pandemic resulting in crash of global economy and financial markets	20	<p>Existing Controls: "Diversification of assets and managers. 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</p>	15
Risk	Inherent Risk Score	Controls/Mitigating Action(s)	Residual Risk Score
2.5 Loss of income for employer resulting in inability to fund contributions	1510	<p>Existing Controls: "Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; 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.</p> <p>Mitigating Actions: undertake review of admission agreements and guarantees.</p>	10

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	Isio, 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 2020 the Fund's Net Assets were valued at **£712.3m**

Investment Manager	Asset Description	31-Mar-20	
		£'000	%
Baillie Gifford	UK Equities	29.7	4.2
Baillie Gifford	Global Equities	137.8	19.4
UBS	Managed Fund - UK Equities - Passive	44.0	6.2
UBS	Managed Fund - Property	38.5	5.4
Blackrock	Managed Fund – Long Lease Property	59.9	8.4
Morgan Stanley	Managed Funds - Global Equities	98.7	13.9
LGT	Managed Fund - Alternatives	50.6	7.1
M&G	Managed Fund - Diversified Income	92.1	12.9
M&G	Managed Fund – Index Linked	42.3	5.9
Permira	Managed Fund – Private Credit	27.7	3.9
Partners Group	Managed Fund – Private Credit	23.5	3.3
Macquarie	Infrastructure Debt	32.1	4.5
Various (through LPFI)	Infrastructure	26.5	3.6
Cash	Internal	8.9	1.3
		712.3	100

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During the financial year 2019/20 the benefits payable and contributions receivable from members and employers within the Fund were as follows:

	2019/20	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	(21,465)	15,532
Scheduled Bodies	(676)	856
Admitted Bodies	(1,494)	3,442
Total	(23,635)	19,830

Managing Our Performance

This section gives an outline of how performance will be measured, monitored and managed.

Pension Administration

- The **Pension Administration Strategy** (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** (presented for approval 22 June 2020) 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 meeting 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 as at 31 March 2020 is currently in progress.

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 31/3/2020	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund	-1.7	-1.9	3.8	3.0
Global Equities including UK	0.8	-5.1	6.4	3.1
UK Equities	-18.2	-18.2	-3.6	-4.1
Bonds	-1.8	3.4	1.2	3.6
Property	1.5	3.3	5.5	5.6
Alternatives	1.4	5.0	2.9	4.7
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

How?			By whom?	By when?			EIA	
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	20/21	21/22	22/23	
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 Strategic asset allocation following completion of 2020 valuation outcomes	P2-B1	P&I Manager	•			

Scottish Borders Council Pension Fund

Draft Business Plan 2020/21 – 2022/23

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 31/3/2020 reported by 31/12/2020		
P1-B2	Data provision review to meet the requirements of newly appointed Actuary	By 31/03/2020			
P1-C1	Correct employer contribution rates in Pensions System for each employer	By 30/06/2020			•
P1-C2	Pension Fund Committee approval of Funding Strategy Statement	By 30/06/2020			•
P2-A1	Undertake review of current taxation position	By 30/06/2020			
P2-A2	Implement actions from taxation review	By 31/12/2020			
P2 – B1	Undertake full review of strategic asset allocation	By 31/03/2021			

Scottish Borders Council Pension Fund

Draft Business Plan 2020/21 – 2022/23

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	20/21	21/22	22/23	
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 stability of Employers						
		Review of Employer covenants	P5-A1 P5-A2	HRSS Manager	•	•		

Scottish Borders Council Pension Fund

Draft Business Plan 2020/21 – 2022/23

Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	20/21	21/22	22/23	EIA
P 6	Ensure accuracy of Pension Records							
		Complete 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							
		Implementation of Self Service facility	P7-A1	HRSS Manager	•	•		
P 8	System improvements to support home working							
		Consider implementation of workflow	P8-A1	HRSS Manager	•			
		Implementation of i-Connect for large employers	P8-A2	HRSS Manager	•			
		Digitisation of historical records	P8-A3	HRSS Manager	•	•		
		Availably for online payslip and P60's	P8 –A4			•		

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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	31/03/2021			•
P3-A2	Hold Annual Employer Liaison Meeting	1 meetings by 31/03/2021			•
P3-A3	Annual review of all forms, communication material, including annual benefit statements	31/09/2020			•
P4-A1	Development of Cessation and Discretion Policy	31/12/2020			
P5-A1	Review of admission agreement	31/03/2021			
P5-A2	Review of employer guarantees	31/03/2021			
P6-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	31/03/2021			
P6-A2	Review of Common and Specific Data following annual review and return to The Pension Regulator.	31/12/2020			•
P7-A1	Implementation and roll out of self service to all members	30/06/2021			
P8-A1	Implementation of workflow	31/12/2020			
P8-A2	Implementation if i-Connect	31/12/2020			
P8-A3	Digitisation of historical records	30/06/2021			
P8-A4	Implementation of online payslips and P60's	30/06/2021			

What we want to achieve ... (Objective)

Scottish Borders Council Pension Fund

Draft Business Plan 2020/21 – 2022/23

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	20/21	21/22	22/23	
P 9	Continue to develop robust governance and risk management							
		Review and update Governance Policy and Compliance Statement	P9-A1	P & I Manager	•			•
		Develop and deliver 2020/21 Training Programme	P9-A2 & A4	P & I Manager	•			
		Review and update Responsible Investment Policy and annual reporting	P9-A5	P & I Manager		•		
		Review and update Pensions Administration Strategy	P9-A3	HRSS Manager	•			•
		Ensure the Pension Fund in prepared to meet any future reporting requirements from the Stewardship Code 2020	P9-A6 & A7	P & I Manager	•	•		
P 10	Review services provided externally to ensure that these represent best value to the Fund							
		Undertake procurement exercise for Investment Advisor	P10-A1	P & I Manager	•			

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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P9-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2019	30/06/2020			•
P9-A2	Pension Fund Committee approval of Training Policy 2020 and Training Programme 2020/21	30/06/2020			•
P9-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/2020			•
P9-A4	Training Needs Self-Assessment Levels from 2019/20 to 2020/21	30/06/2020			•
P9-A5	Review current and developing best practice for responsible investment	31/12/2020			
P9-A6	Undertake review of Stewardship Code 2020 and recommendations for adherence	31/12/2020			
P9-A7	Implement recommendation from Stewardship Code review	30/09/2021			
P10-A1	Undertake procurement exercise for Investment Advisor (current contract end 31/3/2021)	31/12/2020			

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

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 Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2020

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 virtual risk workshop was held on 15 May 2020 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.
- 1.5 Two new risks have been identified in relation to global pandemics and the consequences on the assets and employers. These are detailed in para 4.4
- 1.6 In line with the Council's Risk Management Policy (2018) a paper to be presented at the September 2020 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 2020.**

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 2020/21 – 2022/23, to be presented for approval on 22 June 2020, 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 May 2020 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 46 risks identified in the register, of which 12 are red risks prior the application of internal controls. The current identified controls reduce the red risks to one. There are 15 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
1.9	New treat action- Investment strategy review following 2020 valuation
2.1	New treat action- updated for 2020 valuation
2.3	Updated to remove references to SBCares.
2.5	New treat action- review of admission agreements and guarantees
4.1	Updated to reflect 3 year rolling program of auto-enrolment
4.5	New treat action- to ensure awareness of new or revised guidance from The Pension Regulator or Government around "freedom of choice"
5.1, 5.2, 5.5 & 5.6	Updated to reflect ability of staff to undertake home working
7.6	Updated to reflect full implementation of Responsible Investment Policy

- 4.4 Two new risks identified during review in connection with global pandemic, these are detailed below

No	Category	Risk	Effect/consequence	score
1.11	Assets & Investments	International pandemic resulting in crash of global economy and financial markets Loss or reduction of investment returns	Overall funding level falls and employers required to pay increased contributions	12
2.5	Employer	Global pandemic resulting in closure of facilities and loss of income due to economy crash Loss of income for employer resulting in inability to fund contributions	Failure of employer to pay contributions loss of cash flow to pay pensioners"	10

- 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 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing 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 or 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 Service Director HR, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

David Robertson

Executive Director Finance & Regulatory

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 13 March 2020

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

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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
1.1	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/ Exec Dir Finance & Regulatory	4	3	12	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	4	3	12
Page 108	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 Fun Committee/Exec Dir Finance & Regulatory	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 Fun Committee/Exec Dir Finance & Regulatory	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

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 Fun Committee/Exec Dir Finance & Regulatory	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	Exec Dir Finance & Regulatory	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 194	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	Exec Dir Finance & Regulatory	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	Pension & Investment Manager/ Pension Fund Committee/Executive Dir Finance & Regulatory	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
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	Pension & Investment 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

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	
1.9	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 Fun Committee/Exec Dir Finance & Regulatory	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	
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, Employers pay more contributions into Fund.	ongoing	Exec Dir Finance & Regulatory	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	
Page 135	1.11	Asset & Investment	International pandemic resulting in crash of global economy and financial markets	whole scale crash of financial markets which would have direct effect on investment returns.	Funding levels falls, Employers pay more contributions into Fund.	Ongoing	Pension Fun Committee/Exec Dir Finance & Regulatory	4	5	20	Diversification of assets and managers 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	Partially 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 Fun Committee/Exec Dir Finance & Regulatory	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2020 valuation commenced; 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 Fun Committee/Exec Dir Finance & Regulatory	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2020 valuation commenced; 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 Fun Committee/Exec Dir Finance & Regulatory	4	3	12	Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey, and Council agreement in place for Live Borders and CGI ; 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	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	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
2.5	Employer	Loss of income for employer resulting in inability to fund contributions	Global pandemic resulting in closure of facilities Loss of income due to global economy crash	Failure of employer to pay contributions loss of cash flow to pay pensioners	ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	3	5	15	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; 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. TREAT ; undertake review of admission agreements and guarantees	Partial Effective	2	5	10

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
3.1	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	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	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
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 Fun Committee/Exec Dir Finance & Regulatory	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
Page 137 3.3	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 Fun Committee/Exec Dir Finance & Regulatory	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	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	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
4.1	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	Exec Dir Finance & Regulatory	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 for SBC, will follow the three year cycle; Pension Administration Strategy in place and monitored and Employer Liaison Group; Annual Report includes analysis of membership changes. Close monitoring of early retirement decisions and quantification of impact on pension fund being included as part of the Council reports; Estimated monthly cash flow completed and monitored. Investments identified to supplement funding gap 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	Exec Dir Finance & Regulatory	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
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 cash flow to fund current obligations or insufficient funding to cover future liabilities	CPI inflation; Mortality levels; Investment Returns.	Setting Funding and Investment Strategies; Insufficient cash flow to fund current obligations or insufficient funding to cover future liabilities; Increased employer contributions.	Ongoing	Exec Dir Finance & Regulatory	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

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
4.4	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	Exec Dir Finance & Regulatory	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	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	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 cash flows 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	Pension & Investment Manager	4	3	12	Daily and weekly monitoring of Pension Fund's Cash flows; 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
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 penalty costs and reputational damage.	Insufficient information from member or employer; Lack of access to pension fund system administration information; Absence of specialist pension admin resource.	Financial distress for retired staff; Potential referral to the Pensions Regulator and/or external auditor; Potential for penalty costs to be levied; Reputational damage.	Ongoing	HR Shared Services Manager	3	3	9	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; 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

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
5.2	Administrative	Failure to collect and account for contributions from employers and employees on time may lead to adverse cash flow 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 cash flow deficit.	External employers not remitting contributions on time.	Adverse cash flow implications for the Fund; Adverse external audit opinion; Referral to the Pensions Regulator; Reputational damage; Requirement to divert investments to fund the cash flow deficit.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; 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
5.3	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 with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; 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 with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; 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/ Pension & 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 electronic copies circulated 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/ Pension & 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
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	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	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

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
6.3	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	Exec Dir Finance & Regulatory	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	Exec Dir Finance & Regulatory	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	Exec Dir Finance & Regulatory	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	Exec Dir Finance & Regulatory	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	Exec Dir Finance & Regulatory	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
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	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	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

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
7.4	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	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	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	Exec Dir Finance & Regulatory	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	Exec Dir Finance & Regulatory	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 and annual monitoring report completed TOLERATE	Partially Effective	2	2	4

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PENSION FUND BUDGET OUT-TURN AS AT 31 MARCH 2020

Report by Executive Director Finance and Regulatory

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

22 June 2020

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an final out-turn position of the Pension Fund as at 31 March 2020..**
- 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 the standards a budget for financial year 2019/20 was approved on 7 March 2019 following the standard presentation recommended by the CIPFA accounting guidelines. This report is the final out-turn report of the approved budget.
- 1.4 The total expenditure to 31 March 2020 is £5.9m against a budget of £6.4m giving an underspend of £0.5m.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:-**
 - (a) Notes the actual expenditure to 31 March 2020**

3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 require Administering Authorities to ensure strong governance arrangements 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.
- 3.2 The 2019/20 budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 7 March 2019 and the 2020/21 budget on 10 March 2020. The approved budgets follow the Local Government Pension Scheme management costs guidance issued by CIPFA into 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.

- 3.3 Following the launch of the Cost Transparency Initiative (CTI) the English and Welsh Scheme Advisory Board has contracted with Byhiras to provide an online system for the submission of fees from Managers. The Scottish Scheme Advisory has agreed to also participate in the Byhiras project. This will allow the collation of the fees information from the Fund's managers and should thereby provide better information for benchmarking going forward.
- 3.4 All fund managers have been contacted for the provision of fees and they have agreed information for 2019/20 will be available for the production of the Annual Report and Accounts.

4 OUT-TURN POSITION 31 MARCH 2022

4.1 The table below shows the actual expenditure to 31 March 2020 and approved budget for 2020/21.

	Expend to 31 March 2020	2019/20 Budget	2019/20 Variance	2020/21 Approved Budget
	£000's	£000's	£000's	£000's
Investment Management Fees	5,296	5,750	(454)	6,198
Administration	363	446	(83)	401
Oversight & Governance	263	262	1	295
Total	5,922	6,458	(536)	6,894

4.2 Investment management fees are charged according to the individual Investment Management Agreements (IMAs). The fees are calculated as a percentage of the valuations. Due to the decrease in valuations in the final quarter of the year fees incurred were less than budgeted, resulting in an underspend of £454k.

4.3 The budget variance in 2019/20 for Administration reflects an amendment to the training, testing and implementation phases of Member Self Service due to COVID19 and a further delay in the completion of the GMP reconciliation due clarifications remaining outstanding from HMRC.

5 IMPLICATIONS

5.1 Financial

There are not costs attached to any of the recommendations contained in this report.

5.2 Risk and Mitigations

This report is part of the governance framework to manager the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risk are managed in line with the Corporate Risk Management framework, with risks and controls monitored and reported on a quarterly basis.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required und the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio –economic factors have duly been considered when preparing 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

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

6 CONSULTATION

6.1 The Chief Legal Officer (Monitoring Officer), the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been included in the report.

Approved by

David Robertson

Executive Director Finance & Regulatory

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 10 March 2020

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

DRAFT ANNUAL REPORT AND ACCOUNTS 2019/20

Report by Executive Director Finance and Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report provided the Joint Committee and Board with an opportunity to scrutinize and approve the Draft Annual Report and Accounts for the Pension Fund for 2019/20 prior to their submission to 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 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 2019/20(the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2020.
- 1.4 The draft Report and Accounts are still subject to statutory Audit, which will commence early July 2020. Following the statutory Audit process the final Report and Accounts will be submitted to the joint Committee and Board to review and of recommendation for approval.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee ;**
 - a) **Notes the Draft Annual Report and Accounts 2019/20 and;**
 - b) **Supports their submission for review by the External Auditors, Audit Scotland**

3 BACKGROUND

- 3.1 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.

4 ANNUAL REPORT AND ACCOUNTS 2019/20

- 4.1 The draft Annual Report and Accounts for 2019/20 (the Annual Report) is attached at **Appendix 1**. The Annual Report will also be submitted to Audit and Scrutiny Committee on the 23 June 2020 for review prior to submission to the external auditors, Audit Scotland, by 30 June 2020.
- 4.2 The Annual Report will also be made available for public inspection for a 3-week period commencing 30 June 2020.
- 4.3 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.
- 4.4 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.

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. Risk are managed in line with the Corporate Risk Management framework, with risks and controls monitored and reported on a quarterly basis.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website demonstrates that equality, diversity and socio-economic factors have duly been considered when preparing this report.

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 contents of this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

6.1 The Chief Legal Officer (Monitoring Officer), the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been included in the report.

Approved by

David Robertson
Executive Director Finance & Regulatory

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 13 June 2019

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**SCOTTISH BORDERS
COUNCIL PENSION FUND**

**UNAUDITED ANNUAL
REPORT AND ACCOUNTS**

FOR THE YEAR TO 31 MARCH 2020

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SECTION 1

INTRODUCTION

CHAIRMAN'S REPORT



Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year

ended 31 March 2020. 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 2019/20.

Highlights of 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.

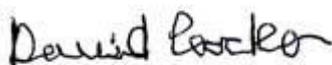
The Committee members have engaged with training events both locally and nationally to expand their knowledge and understanding. All members of the Committee and Board fully met the training requirements.

The Joint meetings of the Committee and Board continued during 2019/20 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

Due to COVID-19 and the subsequent market crash in March 2020, the Fund has seen for the first time since 2008 negative performance of 1.7% against a benchmark of negative 1.9%. The rebalancing and diversification work which has been ongoing for the last 5 years has meant The full effect of the market crash has not be incurred by the Fund.



Chairman, Pension Fund Committee
Scottish Borders Council

The Fund has throughout 2019/20 continued with the processing of diversifications away from equities and has increased its investments In infrastructure from £11.5m to £26.4m. It has also increased infrastructure debt to £32m.

Statement of Responsible Investment

The Committee believes that a positive approach to Environmental, Social and Governance (ESG) issues can positively affect the performance of the Fund. Good progress has been made with the Fund's first annual responsible investment report being approved. This report showed that 99.8% of the Funds' assets are managed by United Nations Principles of Responsible Investment (UNPRI) signatories. The Fund continues to work with all its managers to ensure ESG is fully integrated into all their investment decisions.

The Fund has also during the year become signatories to Climate Action 100+ initiative which is actively working to ensure the Paris Agreement climate change targets are met.

Pensions Administration

100% of annual benefit statements were distributed within the required timescales and an Admission Policy approved.

COVID-19 has brought new challenges, which the services has met. All payments to pensioners continue to be paid on time and queries responded to in the usual manner.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers of the Council, our investment managers, Isio and the Fund Actuary Hymans Robertson for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.

MANAGEMENT COMMENTARY

STRATEGY AND OBJECTIVES

Scottish Borders Council Pension Fund's primary aim 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". All the longer term policies, objectives and strategies of the Fund reflect this aim.

The Scottish Borders Council Pension Fund Committee agree all policies and strategies, scrutiny of these decisions is provided by Scottish Borders Council Pension Fund Board. All key policies and strategies are located on the Funds' website.

GOVERNANCE

The Pension Fund Committee aims to ensure the Fund is managed effectively, transparently and in compliance with regulations. A review of the governance arrangements and performance are undertaken on an annual basis. The review has confirmed the Fund is fully compliant with the Local Government Pension Scheme (Scotland) Regulations 2014 requirements.

The Fund, annually, agrees a three year business plan which sets out the action plan to deliver the key work areas identified to ensure objectives continue to be met. The actions are monitored and reported to the Pension Fund Committee. The key actions completed in 2019/20 were:-

- Approval of a new Admission Policy.
- Submission of all required Guaranteed Minimum Pension data to HMRC.
- Approval of the first annual Responsible Investment report.
- Annual training requirements for Committee and Board Members.

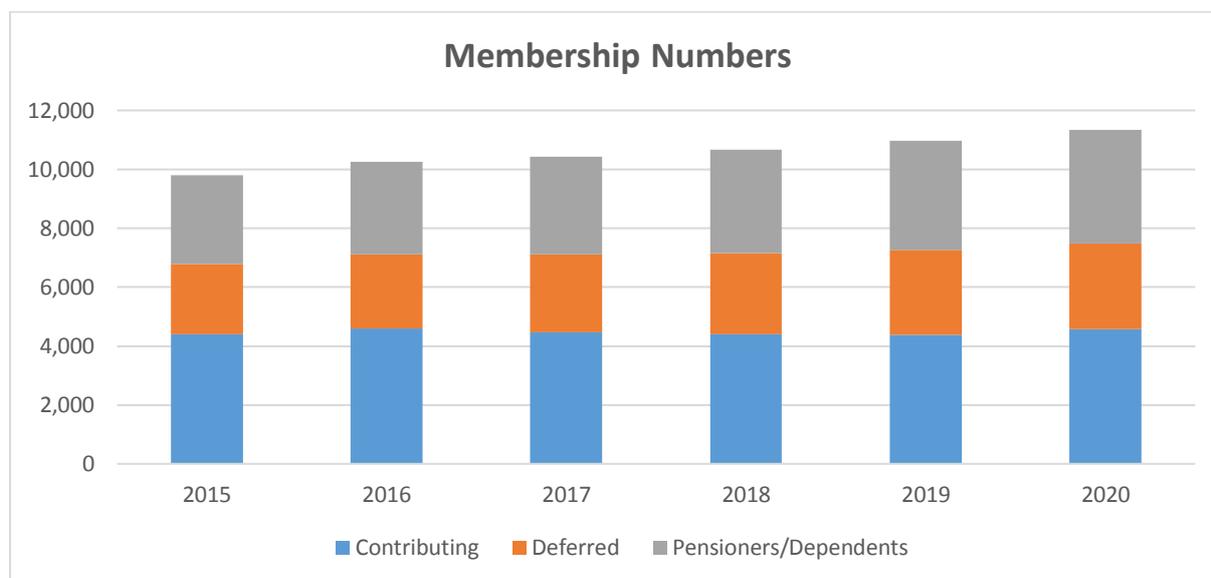
Good progress was also made for implementation of a new self-service facility for members

ADMINISTRATION AND MEMBERSHIP

The Pension Administration Strategy sets out the performance standards required by both Scottish Borders Council, as administrating authority and all employers of the Fund. The performance of the Fund against these standards are reported on an annual basis to the Pension Fund Committee.

The Fund has paid pensions benefits of £23.6m during the year and received contributions of £21.2m. The Fund has continued to mature with net withdrawals for dealing with members increasing to £5.3m during 2019/20 compared to £3.6m in 2018/19. The increase being funded by increased income from investment returns. Throughout the COVID-19 crisis, pensions have been paid on time and contributions have been collected. The ability for staff to work from home has allowed the administration function to perform as normal.

The maturing nature of the Fund is reflected in the membership numbers which are shown in the table below. Active members at 31 March 2020 increased during the year to 11,338 but active contribution members now only represent 40% of the membership compared to 45% on 31 March 2015.



COMMUNICATION

The Funds’ Communication Policy seeks to ensure communication in an efficient manner to all stakeholders. Communication is undertaken in a number of ways including the Fund website, annual newsletters and statements, emails, face to face meetings and telephone.

Due to COVID-19 additional communication has been undertaken via the website including FAQ’s, pension fund increases and guidance for pensioners on how to access online payslips.

FUNDING

The most recent three yearly Actuarial Valuation was 31 March 2017 with the Fund reporting a funding position of 114%. The next formal valuation of the Fund will be as at 31 March 2020. Interim monitoring is undertaken on a quarterly basis between valuations and reported to the Pension Fund Committee, the latest estimate shows an improvement on the funding position. However, uncertainties caused by GMP reconciliation, the scheme costs cap mechanism and legal challenges on the grounds of age discrimination, arising from the McCloud judgement may, have an impact on the funding position, that value of which is as yet unknown. The Fund will continue to develop its funding and investment strategies to address these issues.

INVESTMENT

The Funds’ investments returns delivered a negative return of 1.7% against a benchmark of negative 1.9% for the year to 31 March 2020. Although this return was negative, the diversification implemented over the last five years to reduce the risk exposure to equities has meant the full impact of the market crash due to COVID-19 in March was not fully felt within the Fund.

Investment markets during 2019/20 have at times been very volatile. Against this background the Fund, as a longer term investor, has retained confidence in the long term strategy set out in the Statement of Investment Principles. Work to implement the strategy has continued, with

equity exposure decreasing and funds being invested in longer term illiquid assets such as infrastructure and infrastructure debt.

The Strategy has resulted in increased levels of investment income which has allowed the Fund to meet the increasing net withdrawal for dealing with members, which increased to £5.3m in 2019/20.

The Fund has an overriding obligation to act in the best interest of the scheme beneficiaries. As part of this role the Fund believes that a positive approach to Environmental, Social and Corporate Governance issues can positively affect the financial performance of investments.

The Fund has, in line with its Statement of Responsible Investment Policy, completed its first annual report on all our managers. 11 out of the 12 managers are signatories of UNPRI with the one remaining manager only representing 0.02% of the Fund's assets. The Fund has during the year declined investment opportunities offered by managers not signatories of UNPRI.

The Fund has also become a signatory to Climate Action 100+ which is working with Investors and Fund Managers to reduce carbon emission and ensure the Paris Agreement targets are met. The three main aims are:-

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change;
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

KEY TRENDS

Membership	2015/16	2016/17	2017/18	2018/19	2019/20
Active Members	4,594	4,466	4,409	4,376	4,573
Deferred Members	2,508	2,652	2,751	2,878	2,909
Pensioners	3,157	3,314	3,507	3,707	3,856
Total Members	10,259	10,432	10,667	10,961	11,338

Investments	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Opening Value	544,460	541,778	653,207	685,681	731,048
Movement in year	(2,682)	111,429	32,475	45,367	(18,728)
Closing Value	541,778	653,207	685,681	731,048	712,320
Investment Income	6,451	8,292	8,195	13,314	13,938
Investment Fees	2,754	3,051	8,192	5,848	5,296

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Administrative costs	(301)	(263)	(292)	(391)	(344)
Oversight & Governance costs	(217)	(241)	(233)	(289)	(282)
Pensions Income	19,053	19,447	19,610	20,647	21,200
Pensions Expenditure	(21,024)	(21,676)	(22,189)	(24,257)	(26,555)
Net Pensions Cash flow	(1,971)	(2,229)	(2,579)	(3,610)	(5,355)

SECTION 2

GOVERNANCE

SCHEME ADMINISTRATION

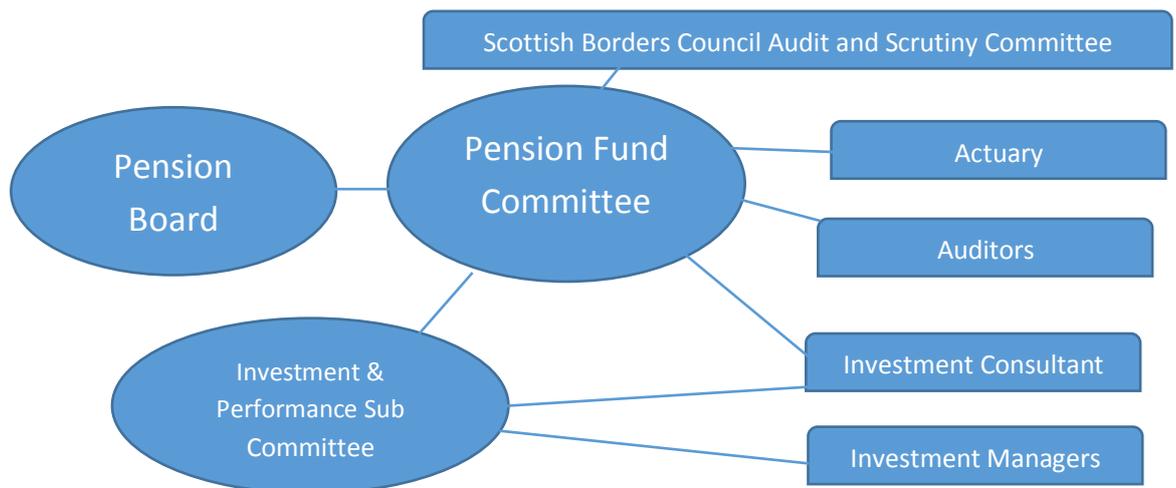
The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority).

The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. The Fund adheres to Scottish Borders Council policies for managing conflicts of interests, codes of conducts and register of interests.

David Robertson, Executive Director Finance and Regulatory, as the Council's Section 95 Officer is responsible for the financial administration of the Fund.

SCHEME GOVERNANCE

The Governance structure of the Fund can be seen below including the roles each of the parties undertakes. The Pension Fund Committee and Pension Board meet jointly four times a year, with papers and minutes being available one week prior to the meeting. Scottish Borders Council Pension Fund Governance:-



Pension Fund Committee – is the main decision making body for the Fund, is chaired by the Convenor of the Council, and consists of six Scottish Borders Council Councillors.

Pension Board – assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The Board consists of four employer representatives and four employee Union representatives.

Investment & Performance Sub-Committee – develops investment strategy and monitors investment performance. Consists of the Pension Fund Committee Members, one employer and one employee representative from the Pension Board.

Actuary – provides advice on funding, this role is currently undertaken by Hyman Robertson.

Investment Consultant – provides advice on all aspects of investment objectives, strategy and monitoring, this role is currently undertaken by Isio.

Investment Managers – manage the investment portfolios.

Auditors – provide audit assurance that the Fund is adhering to regulations, other legislation and requirements of the Pension Regulator. The internal Audit function is provided by Scottish Borders Council's internal Audit department and the external Audit function is provided by Audit Scotland.

Scottish Borders Council Audit & Scrutiny Committee – provides independent scrutiny of the Pension Fund Committee's adequacy, effectiveness and systems of internal controls.

PENSION FUND COMMITTEE

The Members of the Pension Fund Committee have a fiduciary responsibility to the Pension Fund members and employers that are similar to those holding office of trustee in the private sector. The Members of the Committee are responsible for the decision making of the Fund and hold meetings four times a year. The Committee is comprised of seven elected Members of Scottish Borders Council. The membership is shown below:-



Councillor David Parker - Chair



Councillor Simon Mountford – Vice Chair



Councillor Jim Brown



Councillor Gordon Edgar



Councillor Carol Hamilton



Councillor Donald Moffat



Councillor Sandy Scott

PENSION FUND BOARD

The Local Government Pension Scheme (Government)(Scotland) regulations require each administering authority to have a Pension Board, responsible for assisting the Fund in securing compliance with the regulations and other legislation relating to the administration and governance of the Fund

The Pension Board comprises an equal number of employee and employer representatives appointed by scheme employers and relevant trade unions.

As at 31 March 2020 the Scottish Borders Council Pension Board membership comprised the following:-

Employer Representatives:

- Councillor Sandy Aitchison – Scottish Borders Council
- Hazel Robertson – Scottish Borders College
- Linda Ross – LIVE Borders
- Carly Stewart – SBHA

Employee Representatives:

- Alexander Barclay – UNITE
- Malcolm Drysdale - GMB
- Marc Everett - UNISON
- Kay Marie Hughes – UNISON

In accordance with the regulations, the Pension Board meets jointly with the Pension Fund Committee. This allows consideration of the agenda, presentations and advice from external advisors.

In accordance with the regulations the Pension Fund Board meets jointly at the same place and time as the Pension Fund Committee to allow consideration of the same agenda, presentations and advice from external advisors. The Chair of the Pension Fund Committee acts as Chair of the joint meeting. The Pension Board meet separately, immediately following the joint meeting.

INVESTMENT & PERFORMANCE SUB-COMMITTEE

The Investment and Performance Sub Committee is responsible for making recommendations to the Pension Fund Committee on all areas of investment management including the Statement of Investment Principles and the management of Investment Managers. The Sub-Committee comprises Pension Fund Committee Members and an employee and employer representative from the Pension Board. The Sub-Committee meets three times a year.

RISK MANAGEMENT

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 CIPFA's guidance and 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 2019. All identified actions are monitored and on a quarterly cycle. A full review is undertaken annually.

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The headings under which the Council consider risk 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	17	26

RED -Very High (15-

AMBER – High (6-12)

GREEN – Low (1-5)

The one risk remaining as a red assessment, as at 31 March 2020, is “Legislation and other regulatory framework changes impacting on the Fund”. The Fund is managing and monitoring this risk by ensuring it actively participates in all consultations and keeps abreast of all legislative and regulatory changes.

TRAINING POLICY & PRACTICE STATEMENT

The Council recognises the importance of ensuring that all staff and members, charged with the financial administration and decision making of 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. Training for staff and members of the Pension Fund Committee and Pension Board is provided to enable them to acquire and maintain an appropriate level of expertise, knowledge and skill.

The approved Training Policy adopts the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The Policy also reflects guidance issued by the Scottish Public Pensions Agency and The Pension Regulator concerning skills and knowledge requirements.

The Training Policy applies to members of the Pension Fund Committee and the Pension Board. It requires all members to complete the Pension Regulator Toolkit within six months of joining the Board and to attend at least two training events a year. The Policy also requires an annual training plan to be agreed. The 2019/20 plan was approved on 13 June 2019 and was based on assessment returns completed by all

members. The table below shows all members attended two or more events. All members have also completed the Pension Regulator Toolkit.

Training attendance

No of events	Committee Members		Board Members	
	%	Number	%	Number
5	29	2	0	0
4	14	1	25	2
3	14	1	63	5
2	43	3	12	1

The training covered the following areas:

- Financial Markets and Investment Products
- Investment Concepts and Terminology
- Role of Custodian
- LGPS Benefits Structure
- Regulatory Environment

All members are also required to attend, as a minimum, two meetings of the joint Pension Fund Committee and Pension Board a year. The table below shows all members met this requirement for 2019/20.

No of meetings	Committee Members		Board Members	
	%	Number	%	Number
4	43	3	50	4
3	57	4	12	1
2	0	0	38	3

GOVERNANCE COMPLIANCE STATEMENT

The Local Government Pension Scheme (Scotland) Regulations 2014 requires 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 22 June 2020) which is available on the Council's website: [Governance Policy and Compliance Statement](#)

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 for the Scottish Borders geographical area. The Council has acknowledged its responsibility for ensuring that there is a sound system of governance (incorporating the systems of internal control) and this is reflected in the Council's governance arrangements.
- 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. The overall responsibility of ensuring there is a sound system of governance remains with the Chief Executive.
- c) The Pensions Board meets jointly with the Committee, and 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 2018/19 – 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 is managed effectively, transparently and is compliant. The Business Plan ensures actions are included to address issues raised in the Annual Governance Statement.
- 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 and Scheme of Administration. This is 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 and targets, and independent performance reviews of the Fund by the investment consultant and performance monitoring service 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 Executive Director Finance and Regulatory (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 Pension 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, detail of which are set out in the Governance Compliance Statement 2019-20 (page 14 - 16).

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 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.

Internal Audit Opinion

The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control operating in 2019/20 within the Scottish Borders Council Pension Fund are adequate, and governance and risk management arrangements are effective.

During 2019/20 the following assurance reviews were undertaken:

- Governance and decision-making
- Risk Management

- Pensioners Payroll (as part of the Scottish Borders Council audit on Business World ERP System Key Controls).

The Fund has effective governance arrangements in place through the Pension Fund Committee and Board that support scrutiny and transparency of decisions made. The Business Plan 2019/20 to 2021/22 for the Pension Fund was approved by the Pension Fund Committee and Board on 13 June 2019. It identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund. A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Pension Fund Committee and Board on 17 December 2019.

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 the 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.

Internal Audit work on Business World ERP System Key Controls included the testing of Pensioner Payroll payments. Specifically this confirmed that reasonable assurance can be placed on key controls and processes to ensure that transactions are valid, complete and accurate.

The 2019/20 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.

Improvement Areas of Governance

The following areas of improvement were completed during 2019/20:

- a) Development and approval of Admission Policy.
- b) Development and implementation of an annual monitoring of Responsible Investment Policy

The review identified some areas where further improvements for 2020/21 can be made to enhance the existing governance arrangements:

- a) Development and approval of Cessation and Discretion Policy.
- b) Implementation of self service facility
- c) Employer covenant review
- d) Improvement of systems to support home working
- e) Review of Stewardship Code
- f) Review of strategic asset allocation following the 31 March 2002 valuation.

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 14)

ANNUAL GOVERNANCE STATEMENT

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

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 seven 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 eight members (four employer representatives and four 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's 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. Its remit is set out in the Scheme of Administration. Membership of the Sub-Committee is seven elected Members from the Pension Fund</p>

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Principle		Full Compliance	Comments
			Committee and two (non-voting) members from the Pension Board.
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 the Pension Fund Committee for approval. Two members from the Pension 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 Pension Board and Pension Fund Committee meet jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Pension Board. The Independent Investment Consultant, Finance and HR Officers also attend in an advisory capacity.

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Principle		Full Compliance	Comments
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training. They 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. The Scheme of Administration for the Pension Fund Committee, and the Pension Board Constitution, provide for joint meetings, with equal rights to receive papers and access meetings.
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 the Council's Code of Governance along with the Members' 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 six 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 the Council's Code of Governance requires the declaration of Members' interests for all committees as a standard agenda item.
Voting			
A	The policy of individual administering authorities on voting rights is clear and transparent, including justification for not	Yes	This is set out in the Council's Scheme of Administration and the Pension Board's Constitution

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Principle		Full Compliance	Comments
	extending voting rights to each body or group represented on main LGPS committees.		
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	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	The training policy for all members of the Pension Board and Pension Fund Committee is approved annually at the joint meeting 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	The Annual Training Plan produced and implemented with logs of training attendance maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or	Yes	The joint meetings of the Pension Fund Committee and Pension Board are quarterly.

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Principle		Full Compliance	Comments
	committees meet at least quarterly		
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the main committee dates.	Yes	The Investment Sub-Committee meets every four months between the 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	The Pension Board formally provides for 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 as detailed in the Scheme of Administration.
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 the Committee as having a remit which covers all matters relating to the Council's role as Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government

**Scottish Borders Council Pension Fund
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Principle		Full Compliance	Comments
			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 if 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 the Council's website.

SECTION 3

FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITIES

The Council's responsibilities

Scottish Borders Council as the administering authority for Scottish Borders Council Pension Fund is required to:

- Make arrangements for the proper administration of Scottish Borders Council Pension Fund's financial affairs and to ensure that the proper officer of the authority has responsibility for the administration of those affairs in relation to Scottish Borders Council Pension Fund, that officer is the Executive Director Finance and Regulatory.
- Manage the affairs of Scottish Borders Council Pension Fund to secure the economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation. (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (Section 12 of the Local Government in Scotland Act 2003).
- Approve Scottish Borders Council Pension Fund Annual Accounts for signature

EXECUTIVE DIRECTOR FINANCE & REGULATORY

The Executive Director Finance and Regulatory is responsible for the preparation of Scottish Borders Council Pension Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)

In preparing the Annual Accounts, the Executive Director Finance & Regulatory has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with legislation, and
- Complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Executive Director Finance & Regulatory has also:

- Kept adequate, up to date accounting records.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of Scottish Borders Council Pension Fund as at 31 March 2020 and the transactions of the Fund for the year then ended.

David Robertson
Executive Director Finance & Regulatory
Scottish Borders Council

25 June 2020

FUND ACCOUNT for year ending 31 March 2020

2018/19 £'000		2019/20 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
19,385	Contributions	19,830	7
1,262	Transfers in from other pension funds	1,370	8
20,647		21,200	
(22,794)	Benefits	(23,635)	9
(1,463)	Payments To And On Account Of Leavers	(2,920)	10
(24,257)		(26,555)	
(3,610)	Net Additions/(Withdrawals) from Dealings with Members	(5,355)	
(6,528)	Management expenses	(5,922)	11
	Return on Investments:		
13,314	Investment Income	13,938	12
45,423	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	(22,587)	
(283)	Taxes on Income	(115)	
58,454	Net Return on Investments	(8,764)	
48,316	Net Increase/(Decrease) in the Fund during the Year	(20,041)	
684,583	Opening Net Assets of the Scheme	732,899	
732,899	Closing Net Assets of the Scheme	712,858	

The Fund Account shows the payments to pensioners, contribution receipts from employers and scheme members, and the income, expenditure and change in market value of the Fund's investments.

NET ASSET STATEMENT as at 31 March 2020

2018/19 £'000		2019/20 £'000	Notes
731,048	Investment Assets	713,000	14
-	Investment Liabilities	(681)	14
731,048	Total net investment	712,319	
	Current Assets & Liabilities		
3,246	Current Assets	2,487	21
(1,395)	Current Liabilities	(1,948)	22
1,851		539	
732,899	Net Assets of the Fund available to fund benefits at the period end	712,858	

The Net Assets Statement represents the value of assets and liabilities as at 31 March (excluding liability to pay pensioners).

David Robertson CPFA
Executive Director Finance & Regulatory

25 June 2020

NOTES TO THE 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. For 2019/20 this was 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 2019/20 ranged from 18% 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 2020. From 1 April 2015 these contributions will be based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.

C) Benefits

The Local Government Pension Scheme is a defined benefit scheme. From 1st April 2015 benefits are accrued at a rate of 1/49th of pensionable pay on a career average basis. Prior to that date benefits were accrued on a final salary basis. These benefits are fully protected on the basis under which they were accrued.

The table below give a summary of the scheme benefits:

Membership up to 31 March 2009		Membership from 1 April 2009 to 31 March 201		Membership from 1 April 2015
Annual pension = (service years/days x final pay)/80	+	Annual pension = (service years/days x final pay)/60	+	Annual pension = Pensionable pay each year /49 (half that if in 50/50 section)
+		+		+
Automatic lump sum of 3 x annual pension.		No automatic tax free lump sum but can convert pension.		No automatic tax free lump sum but can convert pension.
+		+		+
<ul style="list-style-type: none"> Annual revaluation and pensions increase in line with CPI inflation Partners and dependents pensions Ill health protection Death in service protection 				

Further details can be found on the Scottish Borders Council Pension Fund website.

All benefits are paid in accordance with the Local Government Pension Scheme regulations.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2018/19 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.

Contributions Income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employers augmented contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amounts in respect of strain on the Fund due in a year but unpaid are classed as a current financial asset.

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. Management fees also include transaction costs incurred by the managers.

Investment management expenses incurred by funds in the UK have come under increasing scrutiny in recent years resulting in establishment of the Cost Transparency Initiative (CTI) and the launch of collection templates in 2019. All managers of the Fund have submitted their investment expenses information on the new template which will ensure consistency of reporting.

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.
- Private equity/debt and infrastructure assets are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

The processes of the fund managers, who are listed in Note 14c, (page 43) 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 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 contracts 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 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 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 55).

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.

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and investment Funds) (Scotland) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 23)

Accounting Standards that were issued but not yet adopted.

There are no accounting standards which have not yet been adopted.

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. These investments are valued by the investment managers using guidelines set out by the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS.

The value of unquoted investments at 31 March 2020 was £226.3m (31 March 2019 £186.9m).

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 on page 55. 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 take 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 2020 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 20, page 56)	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 expected returns on pension fund assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> - A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.2m - 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>
Portfolio of Level 3 assets held	Level 3 assets are those which do not have observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. There is, however	The total assets held in Level 3 £226.3m and include Private Credit, Property, Infrastructure and Alternatives. There is a risk that this investment may be under or overstated in the accounts.

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a degree of estimation involved in the valuations.

6 EVENTS AFTER THE REPORTING DATE

There are no known events since 31 March 2020 which directly affect these accounts.

7 CONTRIBUTIONS RECEIVABLE

2018/19				2019/20		
Employers	Members	Total		Employers	Members	Total
£'000	£'000	£'000		£'000	£'000	£'000
14,348	4,601	18,949	Normal	14,889	4,845	19,734
406	-	406	Special/Pension Fund Strain	81	-	81
	30	30	Additional Voluntary	-	15	15
14,754	4,631	19,385	Total	14,970	4,860	19,830

2018/19		2019/20
£'000		£'000
14,121	Administering Authority	15,532
738	Scheduled Bodies	856
4,526	Admitted Bodies	3,442
19,385		19,830

8 TRANSFERS IN

There were no group transfers in to the scheme during 2019/20 or 2018/19 and the total of £1.370m (2018/19: £1.262m) represents the total of transfer values in respect of individual members joining the scheme.

9 BENEFITS PAYABLE

2018/19		2019/20
£'000		£'000
17,967	Pension Payments	18,953
3,948	Commutation and lump sum retirement benefits	3,879
879	Lump Sums death benefits	803
22,794		23,635

2018/19		2019/20
£'000		£'000
20,958	Administering Authority	21,465
373	Scheduled Bodies	676
1,463	Admitted Bodies	1,494
22,794		23,635

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19		2019/20
£'000		£'000
110	Refunds to members leaving service	74
1,353	Individual Transfers	2,846
1,463		2,920

11 MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
391	Administrative costs	363
5,848	Investment management expenses	5,296
289	Oversight and governance costs	263
6,528	Total	5,922

11(a) Investment Management Expenses

2018/19		2019/20
£'000		£'000
4,149	Management Fees	3,819
102	Performance Related Fees	-
48	Custody Costs	91
1,063	Transaction Costs	1,003
486	Other Fees	383
5,848	Total	5,296

12 INVESTMENT INCOME

2018/19		2019/20
£'000		£'000
4,595	Dividends from equities	3,356
3,642	Income from Pooled Investment vehicles	5,527
4,824	Income from Pooled Property Investment vehicles	4,902
253	Interest on Cash Deposits	153
13,314		13,938

13 OTHER FUND ACCOUNT DISCLOSURES

13(a) External Audit Costs

In 2019/20 the agreed audit fee for the year was £21,040 (2018/19 £20,580). The external auditor is Audit Scotland.

14 INVESTMENTS

Market Value at 31 March 2019 £'000		Market Value at 31 March 2020 £'000
	Investment Assets	
181,533	Equities	164,635
371,951	Pooled Investments	329,466
98,428	Pooled Property Investments	97,461
21,450	Private Equity/Infrastructure	58,458
51,678	Diversified Alternatives	50,583
-	Derivative Contracts	-
4,619	Cash Deposits	11,021
1,357	Investment Income Due	1,151
32	Amounts receivable for sales	225
731,048	Total Investment Assets	713,000
	Investment Liabilities	
-	Amounts payable for purchases	(681)
731,048	Net Investment Assets	712,319

Alternative asset portfolio at 31 March 2020

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £50.5m at 31 March 2020, 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

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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
Equities	181,533	25,307	(32,311)	(9,894)	164,635
Pooled Investments	371,951	11,373	(44,769)	(9,089)	329,466
Pooled Property Investments	98,428	7,117	(5,829)	(2,255)	97,461
Private Equity/Infrastructure	21,450	40,412	(2,581)	(823)	58,458
Diversified Alternatives	51,678	-	(418)	(677)	50,583
Derivative Contracts	-	2	(2)	-	-
	725,040	84,211	(85,910)	(22,738)	700,603
Other Investment Balances					
Cash Deposits	4,619			146	11,021
Amount receivable for sales	32			(2)	225
Investment Income due	1357			-	1,151
Spot FX Contract				6	-
Amount Payable on Purchase	-			1	(681)
Net Investments	731,048			(22,587)	712,319

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 and Private Credit.

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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 2020. Each of the investments comprises units in a managed fund.

Value as at 31 March 2019	£'000
Morgan Stanley Global Brands Fund	98,718
M&G Alpha Opportunities Fund	92,086
Blackrock – Long Lease Property	59,880
LGT Crown SBC Segregated Portfolio	50,584
UBS UK Passive Equities	44,037
M&G Index Linked	42,303
UBS Property	38,475

14(b) Analysis of Investments

31 March 2019 £'000		31 March 2020 £'000
	Equities	
	UK	
43,888	Quoted	32,160
	Overseas	
137,607	Quoted	132,447
181,495		164,607
	Pooled Funds – additional analysis - Unquoted	
	UK	
45,549	Fixed Income Unit Trust	42,304
68,940	Equity Unit Trust	45,129
	Overseas	
99,850	Equity Unit Trust	98,746
110,038	Hedge Funds	92,085
	UK & Overseas	
51,678	Diversified Alternatives	50,583
47,611	Private Credit Funds	51,230
423,666		380,078
	Pooled Property Investments	
88,408	UK Pooled Property Investments	97,461
10,020	Overseas Pooled Property Investments	-

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98,428		97,461
	Private Equity/Infrastructure	
18,999	UK Venture Capital	49,950
2,451	Overseas Venture Capital	8,508
21,450		58,458
	Investment Assets	
-	Derivative assets	-
4,619	Cash	11,021
1,357	Investment income due	1,151
32	Amounts receivable from sales	225
731,048	Total Investment Assets	713,000
	Investment Liabilities	
-	Derivative liabilities	-
-	Amounts payable on purchase	(681)-
-	Total Investment liabilities	-
731,048	Net Investment Assets	712,319

14(c) Investment Analysed by Fund Managers

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 2019/209, continued to make investments into infrastructure via collaborative working with Lothian Pension Fund. As at 31 March 2020 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-19				31-Mar-20	
£'000	%			£'000	%
67,559	9.2	UBS	Pooled Fund -UK Equities	44,037	6.2
38,060	5.2	Baillie Gifford	UK Equities	29,683	4.2
148,348	20.2	Baillie Gifford	Global Equities	137,839	19.4
99,850	13.6	Morgan Stanley	Pooled Fund - Global Equities	98,719	13.9
110,038	15.0	M&G	Pooled Fund - Diversified Income	92,086	12.9
45,512	6.2	M&G	Pooled Fund - Bonds	42,304	5.9

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38,463	5.2	UBS	Pooled Fund -Property	38,475	5.4
60,629	8.2	Blackrock	Pooled Fund – Property	59,880	8.4
51,678	7.0	LGT	Pooled Fund - Alternatives	50,583	7.1
19,867	2.7	Partners Group	Pooled Fund – Private Credit	23,494	3.3
27,745	3.8	Permira	Pooled Fund – Private Credit	27,736	3.9
		Alinda	Infrastructure	2,755	0.4
2,407	0.3	KKR	Infrastructure	3,065	0.4
1,646	0.2	Infrared	Infrastructure	1,329	0.2
6,676	0.9	Dalmore	Infrastructure	11,236	1.6
1,522	0.2	Brookfield	Infrastructure	1,340	0.2
		Macquarie	Infrastructure	1,100	0.1
		Equitix	Infrastructure	1,500	0.2
		Gaia	Infrastructure	2,474	0.4
		Oaktree	Infrastructure	1,612	0.2
9,199	1.5	Macquarie	Pooled Fund -Infrastructure Debt	32,047	4.5
1,849	0.6	Internal	Internally Managed Cash & Investments	9,025	1.3
731,048				712,319	

The benchmarks and performance targets for each manager as at the 31 March 2020 are contained in the Statement of Investment Principles published on the Pension Fund website.

Fund Performance

The total Fund return for the year was -1.7% with a relative return over benchmark of -1.6%. Over three years the Fund has generated an annualised return of 3.8% per annum, with a relative return over benchmark of 3.0% per annum. Further information on this is contained in Section 6 - Investments page 80.

14 (d) Stock Lending

The Fund may participate in the stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2020 stock with a market value of £8.1m was on loan.

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 managers 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 cash flow 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	0				0
Open forward currency contracts at 31 March 2020						0
Net forward currency contracts at 31 March 2020						0
Open forward currency contracts at 31 March 2019						0
Net forward currency contracts at 31 March 2019						0

16 FAIR VALUE BASIS OF VALUATION

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.

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16(a) Fair Value Hierarchy

Values as at 31 March 2020	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	441,838	32,406	226,359	700,603
Loans & receivables	12,172	225	-	12,397
Financial liabilities at fair value through fund account	-	(681)	-	(681)
Net Investment Assets	454,010	31,950	226,359	712,319
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	5,977	32	-	6,009
Financial liabilities at fair value through fund account				
Net Investment Assets	510,466	33,663	186,919	731,049

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16(b) Reconciliation of Fair Value Measurements within level 3.

	Market Value 1 April 2019	Transfers into level 3	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses)	Realised gains/ (losses)	Market Value 31 March 2020
	£'000	£'000			£'000	£'000	£'000
Alternatives	51,678	-	-	-	(1,095)	-	50,583
Overseas Equity	2,450	-	5,887	(859)	779	251	8,508
Private Credit	47,611	-	11,489	(6,697)	(1,173)	-	51,230
UK Property	66,181	-	750	-	(843)	-	66,088
Overseas Venture Capital	18,999	-	34,600	(1,722)	(1,895)	(32)	49,950
Total	186,919	-	52,726	(9,278)	(4,227)	219	226,359

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.

Unrealised and realised gains and losses are recognised in the changes in value of investments line of the Fund Account.

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Sensitivity of Assets Valued at Level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined 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 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Alternatives	7.1%	50,583	54,175	46,990
Overseas Equity	20.5%	8,508	10,252	6,764
Private Credit	3.6%	51,230	53,084	49,375
UK Property	7.2%	66,088	70,866	61,309
Overseas Venture Capital	12.0%	49,950	53,497	46,403
Total		226,359	241,874	210,841

17 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 accounting period.

31 March 2019				31 March 2020		
Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000		Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000
			Financial assets			
181,533	-	-	Equities	164,635		
371,951	-	-	Pooled Investments	329,466		
98,428	-	-	Pooled Property Investments	97,461		

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21,450	-	-	Infrastructure	58,458		
51,678	-	-	Diversified Alternatives	50,583		
-	-	-	Derivative Contract			
-	4,619	-	Cash		11,021	
-	1,357	-	Other Investment balances		1,151	
	32	-	Debtors		225	
725,040	6,008	-		700,603	12,397	-
			Financial Liabilities			
-	-	-	Derivative Contract	-	-	-
-	-	-	Other investment balances	-	-	-
-	-	-	Creditors	-	-	(681)
-	-	-		-	-	-
725,040	6,008	-	Total	700,603	12,397	(681)
	731,048				712,319	

17 (a) Net Gains and Losses on Financial Instruments

31 March 2019		31 March 2020
£000		£000
	Financial assets	
45,103	Designated at fair value through profit & loss	(20,613)
398	Loans & receivables	112
	Financial Liabilities	
78	Fair value through profit & Loss	96
(156)	Financial liabilities at amortised costs	(2,221)
45,423	Total	(22,626)

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 12. 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.

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.

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's 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
	%
UK Equities	20.2
Global Equities	20.5
UK Bonds	10.9
Property	10.0
Alternatives	12.3
Cash	0.8

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 20 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	73,717	20.2	88,605	58,832
Global Equities	236,558	20.5	285,052	188,064
UK Bonds	42,304	10.9	46,929	37,678
Property	98,356	10.0	108,148	88,563
Alternatives	252,397	12.3	283,308	221,407
Cash	8,987	0.8	9,098	8,954
Total Assets	712,319		821,140	603,498

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

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

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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 2019 and 31 March 2020 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 2019 £'000	At 31 March 2020 £'000
Cash and Cash Equivalents	7,198	8,987
Fixed Interest Securities		-
	7,198	8,987

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 20 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	8,987	89	(89)

Currency Risk

Currency risk represents the risk that the fair value of future cash flow 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.

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The following table summarises the Fund's currency exposure at 31 March 2020:

Currency exposure by asset type	As 31 March 2020 £'000
Overseas Equities	236,558
Diversified Bonds	92,086
Alternatives	50,583
Venture Capital	8,508
Total	387,735

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with Isio 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 20 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	499	10.73%	552	445
Brazilian Real	1,691	18.20%	1,999	1,383
Canadian Dollar	1,217	9.23%	1,329	1,105
Danish Krone	733	8.42%	795	671
EURO *	26,028	8.45%	28,226	23,830
Hong Kong Dollar	8,935	9.25%	9,761	8,108
Japanese Yen *	13,381	12.42%	15,042	11,719
Norwegian Krone	1,136	11.62%	1,268	1,004
South African Rand	4,118	16.27%	4,789	3,448
Swedish Krona	2,180	9.90%	2,396	1,964
Swiss Franc	2,169	11.21%	2,413	1,926
Taiwan Dollar	176	8.92%	192	161
US Dollar	147,575	9.34%	161,363	133,788
Total Currency *	209,838		230,125	189,552

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

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 2020, including current account cash, was £2.2m (31 March 2019: £2.54m). This was held with the following institutions:

	Rating	Balance at 31 March 2019 £'000	Balance at 31 March 2020 £'000
<i>Money Market Accounts</i>			
Aberdeen Standard	AAA	-	-
Standard Life	AAA	-	-
Blackrock	AAA	-	-
Federated	AAA	-	-
<i>Bank Current Accounts</i>			
Bank of Scotland	A+	2,580	2,237
Northern Trust	AA	4,618	8,987
Total		7,198	11,224

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.

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). The Valuation was completed during the financial year 2017/18 by the then 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.

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.

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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 2018 £m	31 March 2019 £m	31 March 2020 £m
Present value of the defined benefit obligations	(844)	(941)	(887)
Fair Value of Fund Assets* (bid value)	685	733	713
Net Asset/(Liability)	(159)	(209)	(174)

The obligations figure above include £7m for the estimated impact the recent McCloud judgement, which relates to age discrimination arising from public sector pension scheme transition arrangements. The full impact of the judgement are not fully known at this time. 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 2018	At 31 March 2019	At 31 March 2020
	% p.a.	% p.a.	% p.a.
Discount Rate	2.55	2.4	2.4
Pay Increases – Long Term	3.3	3.5	2.9
Pension Increases	2.5	2.5	1.9

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 19) 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

Current Assets	As 31 March 2019 £'000	As 31 March 2020 £'000
Short term debtors		
Contributions Due – Employees	92	15
Contributions Due - Employers	294	43
	386	58
Transfer value receivable (joiners)	193	102
Sundry Debtors	10	9
Prepayments	78	81
Total	667	250
Cash Balances	2,579	2,237
Total	3,246	2,487

22 CURRENT LIABILITIES

Current Liabilities	As 31 March 2019 £'000	As 31 March 2020 £'000
Transfer value payable (joiners)	499	1,498
Sundry Creditors	565	198
Benefits payable	331	252
Total	1,395	1,948

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 2020 was £1.2324m (2019 £1.194m). During the year contributions in totalled £0.293m, while payments out of the AVC fund totalled £0.204m. 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 £1.50m (2019: £1.63m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.005m (2019: £0.004m). The Council charged the Pension Fund £0.343m in

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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	2019 £'000	2020 £'000
Due (to)/from Scottish Borders Council	(343)	(142)

Governance

All members of the Pension Fund Committee were active members of the Pension Fund during 2019/20. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

26 KEY MANAGEMENT PERSONNEL

The key management personnel of the Fund is Scottish Borders Council Executive Director Finance and Regulatory. Total remuneration payable is set out below.

31 March 2019 £000's		31 March 2020 £000's
89	Short-term benefits	96
-	Post-employment benefits	-
2	Other long-term benefits	4
-	Termination benefits	-
-	Share-base payments	-
91	Total	100

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

27 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.

28 CONTINGENT LIABILITES

GMP Equalisation

On 26 October 2018, The High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund recognises the potential for liabilities arising from GMP equalisation. However, as guidance has not yet been issued by the Treasury it is not possible to quantify the impact this will have on the Fund at this time.

GMP Reconciliation

The exercise known as GMP Reconciliation to reconcile HM Revenue contracted out records with those of pension funds is reaching a conclusion. The full cost implication of this is not yet known. Scottish Ministers are expected to legislate that any LGPS pensions that have been overpaid due to incorrect GMPs being held should not be reduced. Instead it is expected that overpayments will be ring fenced and frozen at their current level. Final information is awaited from HMRC to enable this exercise to be fully concluded.

29 POST BALANCE SHEET EVENTS

The unaudited Statement of Accounts was issued by the Executive Director Finance & Regulatory on 25 June 2020. Events taking place after this date are not reflected in the financial statements or notes.

SECTION 4

ADMINISTRATION

PENSION ADMINISTRATION STRATEGY

The Pension Administration Strategy approved in September 2018 sets out the procedures and performance standards required by both Scottish Borders Council, as administrating authority and the employers with the Fund. The procedures and performance standards are agreed to ensure the efficient and effective administration of the pension scheme. The strategy aims to ensure that

- A high quality pension service is delivered to all scheme members
- Pension benefits are paid accurately and on time
- Successful partnership working develops between the Fund and its employers
- Performance standards are understood, achieved and reported; and
- Performance and service delivery comply with the Local Government Pension Scheme (LGPS) regulations, other related legislation and The Pension Regulators Codes of Practice.

PERFORMANCE

The Pension Administration Strategy sets out the statutory responsibilities of Scottish Borders Council as the administrating authority. Service standards and key performance measures are agreed. The performance against these agreed standards and measures are reported annually to the Scottish Borders Council Pension Fund Committee and Pension Fund Board.

The performance for the year to 31 March 2020 is set out below

Employer Performance Measures

Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	812	100%
Change notification – within 20 days	1,429	100%
Retirement info – at least 20 working days before	97	100%
Early leaver notification – within 20 working days	875	100%
Death in service notification – within 10 working days	7	100%

Change notifications are a new category that has been captured this year as it results in a significant amount of work for the Pensions Admin team and it is worth quantifying. Included in the above figure are the 718 changes that were required following the re-integration of SB Cares with Scottish Borders Council, where all employees were TUPE transferred. This was a significant piece of work that had to be completed in addition to normal changes in a short period of time.

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	8	-	100%
CGI	12	-	100%
South of Scotland Enterprise	1	-	100%

The payments that were made after the target date were all received within a maximum of two 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	35	20 days	45.93%
Estimates – Transfer Out	113	20 days	56.64%
Estimate – All Other	911	10 days	77.83%

The Pensions Team and members of the HR Shared Services Helpdesk record when they have had contact in relation to pensions be this by email, in person or telephone and the headline reason of the enquiry. The following table summarises the queries received during 2019/20.

Type of Query	Volume	Target	%age Met
Admitted/Scheduled Bodies Employer Queries	102	5 days	100%
Advice on AVC applications	41	5 days	100%
Advice on Nominations and/or Death Grant	71	5 days	100%
Advice on Options at Retirement	46	5 days	100%
Annual Benefit Statement Queries	243	20 days	100%

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Assistance with form completion e.g. retirement declaration	100	5 days	100%
Change of Address/Bank Details	285	5 days	100%
Divorce	5	5 days	100%
DWP requesting details of Pensioner Payments	12	5 days	100%
Enquiries in relation to Deceased Pensioners	346	5 days	100%
ER/VS general advice	12	5 days	100%
Flexible Retirement	63	5 days	100%
General advice	140	5 days	100%
Internal forms requesting details of Pensioner Payments	68	5 days	100%
Opting In to LGPS	21	5 days	100%
Opting Out of LGPS	75	5 days	100%
Pension Payment queries including tax issues	143	5 days	100%
Refunds Enquiry	50	5 days	100%
Retiral Enquiry	325	5 days	100%
Service Breaks	9	5 days	100%
Transfer In Enquiry	53	5 days	100%
Transfer Out Enquiry	23	5 days	100%
Total	2,236		

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	See below
Benefit Statements	by end of August	14 th August 2019

The sixth liaison meeting with all Admitted and Scheduled Bodies was scheduled for March 2020. However, this was not held due to the COVID-19 situation. Going forward we will review the employer communications and if circumstances allow continue to hold the liaison meeting towards the end of the financial year either as a physical or virtual meeting where we will discuss up-coming legislative changes and requirements for year end processing.

Key Administration Tasks

Task	Total received
New entrants	764
Early leavers	432
Retirements	217
Deaths in service	7
Deaths in deferment	5
Deaths in retirement	108
New Widows(ers), Child Pensions	46
Estimates	911
Pension credit members	-

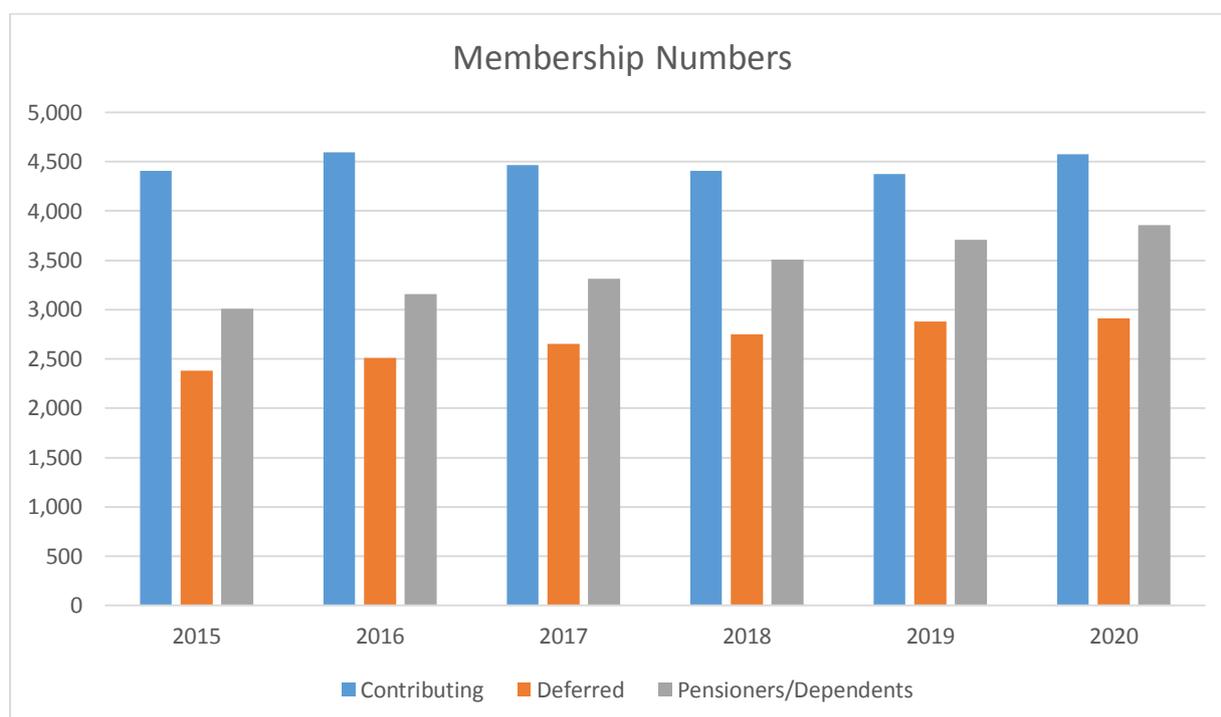
MEMBERSHIP

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 schemes managed and administered by the Scottish Public Pension Agency.

The current membership of the Fund is 11,338, of which 4,573 are actively contributing and 3,856 are in receipt of their benefits. The table over provides a summary of the trends in membership:

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There are 17 employer organisations with the Fund including the Council itself, membership by employer is analysed in the table below.

Membership Details as at 31 March 2020	Number of Contributors	Pensioners	Deferred Pensioners	Total
Scheduled Bodies:				
Scottish Borders Council	4,118	3,567	2,643	10,328
Borders College	191	77	77	345
Visit Scotland (Scottish Borders)	1	7	8	16
	4,310	3,651	2,728	10,689
Scottish Borders Housing Association	73	99	75	247
LIVE Borders	144	50	66	260
Jedburgh Leisure Facilities Trust	2	2	-	4
L&B Community Justice Authority	-	2	7	9
Amey Community Limited (TUPEE Staff only)	4	6	4	14
CGI (TUPEE Staff only)	31	6	8	45
South of Scotland Enterprise	9	-	-	-
	263	165	160	588
Admitted Bodies with No Active Contributing Members:				
Gala Youth Project	-	2	-	2

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Scottish Borders Careers	-	2	2	4
BC Consultants	-	15	15	30
Others	-	21	4	25
	-	40	21	61
Total		4,573	3,856	2,909
			2,909	11,338

COMMUNICATION POLICY AND PERFORMANCE

COMMUNICATION POLICY

The Fund approved the current Communications Policy on 30 November 2018. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is: -

- Delivered in a timely efficient and effective manner
- Provides relevant content to the audience, with a clear purpose and message
- Well written, avoiding being of a technical nature wherever possible based on the differing needs of the stakeholders
- Becoming increasingly digital.
-

The objective of this policy is to ensure that: -

- Pension regulations and the policies of the Fund are communicated in a clear and informative manner
- Benefits of the scheme are promoted to ensure this is recognised as an integral part of the employee reward package
- Information is provided in the most appropriate manner to allow scheme members to make more informed decisions relating to their pensions
- Communication methods are continually evaluated, assessed and redesigned where necessary to ensure continuing effectiveness

The communication methods utilized are:-

Fund website to provide information to as many stakeholders as possible at a time that suits them we provide access to the following: -

- Scheme policies
- Scheme benefits
- Contact details
- Links to other useful sites

Scottish Borders Council Website for Pension Committee and Local Pension Board agendas and minutes can be found on the main Council website, www.scotborders.gov.uk

The Fund uses both surface and e-mail to send and receive general correspondence.

Roadshows and presentations are available to employer workplaces and attend roadshows, seminars, induction and pre-retirement presentations on request, a minimum period of four weeks' notice will be required to allow for appropriate preparations.

Scheme members can arrange to visit our offices to speak to a member of our Pensions Administration Team, they can arrange to pre-book appointments by e-mail or telephone.

The introduction of the Pension Fund website in June 2018 has allowed members to access information and documents. The table below details the number of visits to the site since it was launched. The scheme website can be found at www.scottishborderscouncilpensionfund.org



COMMUNICATION PERFORMANCE

The following communications took place during 2019/20

- The Employer Liaison meeting was not held due to the COVID-19 situation. In place of the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years' payroll.
- In response to the COVID-19 situation additional information was posted within the Scottish Borders Council Pension Fund website, this included the following: -
 - Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
 - Information regarding Pensions Increase
 - COVID-19 Pension Fund Update with a link to the Local Government Association FAQ's for LGPS members
 - 6,760 Benefits statements and newsletter issued.

SECTION 5

FUNDING

FUNDING STRATEGY STATEMENT

The Local Government Pension Scheme regulations require each administer authority to publish and maintain a Funding Strategy Statement.

The purpose of the Funding Strategy Statement is:

- To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- To take a prudent longer-tem view of funding the liabilities

These objectives are desirable individually but may be mutually conflicting. The Statement sets out how the administering authority balances the potentially conflicting aims of affordability and stability of contributions, transparency of processes, and prudence in the funding basis.

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 [Funding Strategy Statement](#). Key elements of the Funding Strategy Statement are the Funding Objective and Funding Strategy for the Pension Fund, an extract of these are 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 contributions 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.

ACTUARIAL STATEMENT

The Local Government Pension Scheme regulations require each administering authority to obtain an Actuarial Valuation of the assets and liabilities of the Fund every three years. The last valuation was at 31 March 2017 and the next one is currently in progress for 31 March 2020. The regulations require each administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out their Funding Strategy.

In completing the valuation the Actuary must have regard to the current version of the administering authority's Funding Strategy statement.

The Actuarial Valuation is essentially a measurement of the Funds liabilities and assets. The Funding Strategy deals with how the liabilities will be managed. In practice, review of the Funding Strategy Statement and completion of the Actuarial Valuation are carried out in tandem to ensure that measurement and management processes are cohesive.

Triennial Valuation 2017

The Triennial Funding Valuation as at the 31 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. The valuation was undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2014. A copy of the report is available via the Council's committee papers website [Pension Fund/Board Committee papers](#)

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. The next valuation is currently in progress for the Fund as at 31st March 2020.

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%

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Note 19 to the Statement of Accounts on page 55, 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 three years.

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	
	2018/19	2019/20
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%
South of Scotland Enterprise	-	20.6%

* The Leisure Trust Common Pool rate was made up with BSLT and Jedburgh Leisure Trust. The amalgamation of BSLT and the Council's cultural services into LIVE Borders in 2016, 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.

Valuation for Statutory Accounts at 31 March 2019

Note 19 to the Statement of Accounts on page 55, contains the present Actuarial Valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £174m. 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: [Pension Fund](#)

SECTION 6

INVESTMENTS

STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SIP) is the Funds' investment policy document and is reviewed regularly. The SIP is updated to reflect any changes agreed by the Pension Fund Committee, the latest approved document, approved on 22 June 2020, can be found at [Statement of Investment Principles](#).

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) which 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 managed
- 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 Lending.

The Pension Fund Committee is responsible for making decisions in relation to the SIP and approving any decisions in relation to any changes to fund managers, investment advisers and custodian. The Pension Fund Investment and Performance Sub-Committee reviews the SIP and monitors the performance of managers. The Sub-Committee makes recommendations to the Pension Fund Committee in relation to these areas.

The key objectives of the Fund which form key considerations when agreeing the SIP are:-

- Build up assets to produce levels of employer contributions
- Seek to maintain a positive ratio of assets to liabilities for the Fund
- Produce long term investment returns in line with Triennial Valuation assumptions.

The 2017 Triennial Valuation reported a funding position of 114% with investment returns targeted at 5% per annum.

These objectives are reflected in the underlying investment principles, which are considered in the development and agreement of the Fund's Investment Strategy. The key principles are shown below:

- **Long term perspective** – by the nature of the Fund's liabilities and employers, the Fund is able to take a long-term view and position its Investment Strategy on this basis.
- **Diversification** – the Fund seeks to diversify its investments in order to benefit from a variety of return patterns and to manage risk.
- **Maturing nature** – the contributions received are less than the benefits currently paid to pensioners meaning the Fund is a maturing Fund. Income generation is therefore required.
- **Stewardship** – the Fund is a responsible investor and adopts policies and practices which acknowledge the importance of environmental, social and governance (ESG) issues.

INVESTMENT STRATEGY

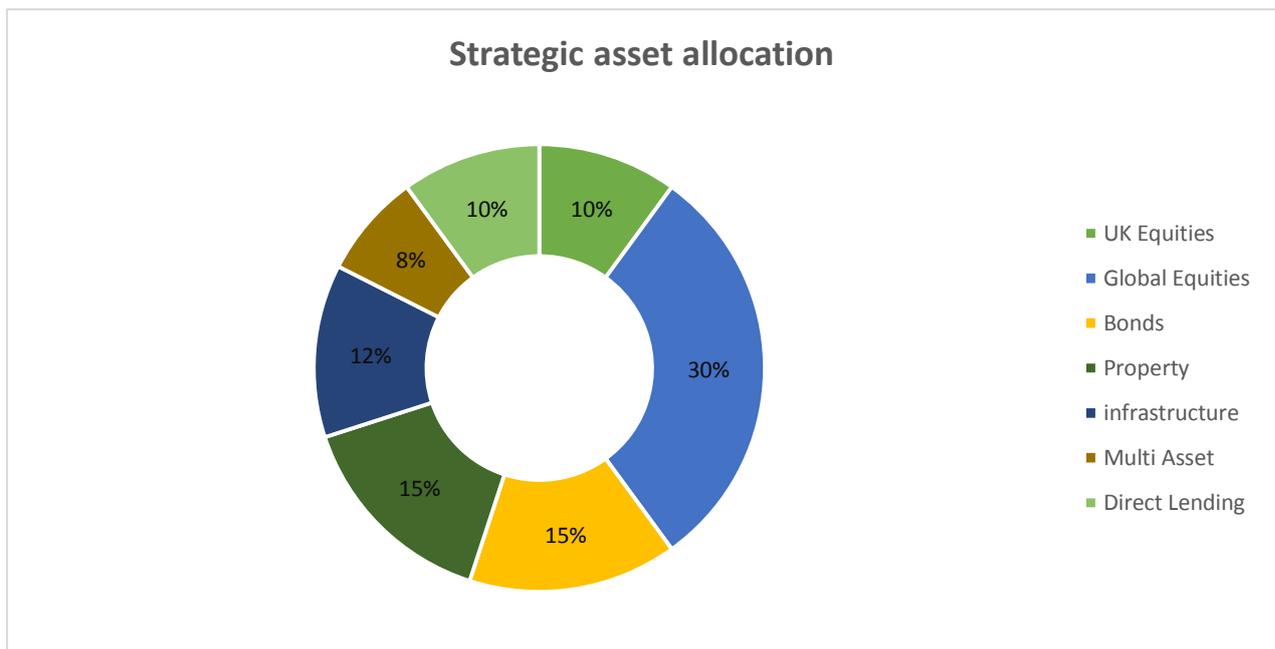
The Fund's investment objective is to support the Funding Strategy by adopting an Investment strategy and structure, which incorporates an appropriate balance between risk and return.

Following the 2014 Triennial Valuation, which showed the Fund at 101% funded, the Fund looked to increase diversification from volatile equity markets and to spread the risk across an increased number of managers. The following valuation in 2017 showed the Fund at 114% funded.

In common with many other Local Government Pension Schemes funds, the valuation showed:

- Pensioner and deferred liabilities outweigh active member liabilities and;
- Cash-flow contributions from members was lower than benefits paid to pensions, moving the Fund into a net outflow.

Using the asset liability model, which assess risk/return against liabilities as the basis for modelling a revised Investment Strategy was approved in September 2018. The diagram below shows the approved strategic asset allocation.



The strategic asset allocation approved, reduced the allocation for equities and increased allocation to infrastructure. These changes were made to increase the alignment of investments with liabilities and to increase the income generating investments to ensure funds available to pay liabilities as they become due. The reduction in equities also reduced the level of risk exposure to equity markets.

The strategic asset allocation also diversifies the risk exposure in its use of managers. The Fund currently has nine Fund Managers over 14 funds; excluding Infrastructure. Shown below are the current Fund Managers:



BLACKROCK



Morgan Stanley



The Funds infrastructure investment is split over two areas of infrastructure debt with Macquarie and a portfolio of investments developed in collaboration with Lothian Pension Fund. The Fund Managers for these are shown below:



Brookfield



DALMORE CAPITAL



KKR



OAKTREE

The implementation of the Investment Strategy commenced in December 2018 with the appointment of Macquarie for infrastructure debt and a reduction of equity managers. Due to the nature of the new investments, progress has been gradual as investment opportunities arise and appointed Fund Managers draw down funds. The table below shows the position as at 31 March 2020 against the Strategy:

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Asset Class	Asset Allocation at 31/3/19 %	Asset Allocation at 31/3/20 %	Strategic Benchmark %
UK Equity	14.4	10.4	10.0
Global Equity	33.9	33.2	30.0
Bonds	21.2	18.9	15.0
Alternatives	13.5	14.3	17.5
Property	13.5	13.8	15.0
Infrastructure	2.9	8.2	12.5
Cash	0.6	1.2	0.0
Total	100.0	100.0	100.0

Investment Manager Allocation

Each external Investment Manager is appointed to manage a specified % allocation of total fund investment assets. The breakdown of the Fund's assets by Investment Manager, mandate type and asset class at 31 March 2020 and 31 March 2019 are show in the table below

Manager	Mandate Type	31 Mar 2020 (%)	31 Mar 2019 (%)
UBS	Pooled Fund -UK Equities	6.2	9.2
Baillie Gifford	UK Equities	4.2	5.2
Baillie Gifford	Global Equities	19.3	20.2
Morgan Stanley	Pooled Fund - Global Equities	13.9	13.6
M&G	Pooled Fund - Diversified Income	12.9	15.0
M&G	Pooled Fund - Bonds	5.9	6.2
UBS	Pooled Fund -Property	5.4	5.2
Blackrock	Pooled Fund – Property	8.4	8.2
LGT	Pooled Fund - Alternatives	7.1	7.0
Partners Group	Pooled Fund – Private Credit	3.3	2.7

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Permira	Pooled Fund – Private Credit	3.9	3.8
KKR	Infrastructure	0.4	0.3
Infrared	Infrastructure	0.2	0.2
Dalmore	Infrastructure	1.6	0.9
Brookfield	Infrastructure	0.2	0.2
Macquarie	Infrastructure	0.2	-
Equitix	Infrastructure	0.2	-
Allinda	Infrastructure	0.4	
Gaia LP	Infrastructure	0.4	-
Oaktree	Infrastructure	0.2	-
Macquarie	Pooled Fund -Infrastructure Debt	4.5	1.5
Internal	Internally Managed Cash & Investments	1.2	0.6

Holdings

The table below shows the top 20 direct holdings at 31 March 2020. All holdings are held with the Baillie Gifford Global and UK equities portfolios.

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

INVESTMENT PERFORMANCE

MARKET CONTEXT

Equity markets started the year in Q2 with a volatile period, due to heightened tensions due to a trade war between US and China. Valuations however rebounded in June in the wake of US and European central banks indicating a continuation of accommodative monetary policies. Q3 continued on from Q2 with volatility during the period as the trade war continued. Due to decline in geopolitical risks during Q4, equity markets saw real gains in all regions. A 0.25% interest rate reduction by the Federal Reserve also assisted with the growth. The gains however were erased in Q1 2020 as COVID-19 significantly impacted most economies, leading to a sharp sell-off in equity markets across the globe. UK and European equities suffered particularly sharp falls as European countries became some of the most severely impacted regions.

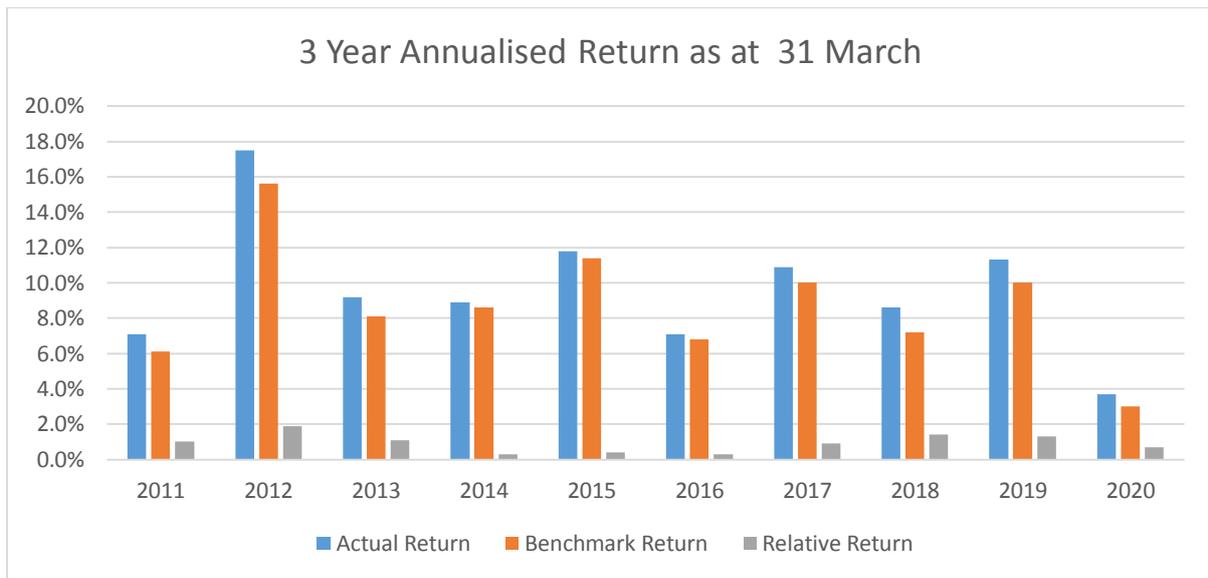
Real assets such as long lease property and infrastructure had a positive if slow performance in Q2 2019 with many deals delayed due to uncertainty around BREXIT. The following two quarters followed a similar pattern with positive returns. Q1 2020 saw a small reduction in valuations due to COVID-19 with some funds suspending trading. The full effect of COVID-19 is not yet fully known although initial data indicates that valuation impacts will be sector specific with some areas such as healthcare, industrial and supermarkets being more resilient.

Credit markets started the year strongly, delivering positive returns as central banks considered stepping away from the removal of accommodative monetary policies. COVID-19 resulted in widespread sell off during Q1 2020 with investors exhibiting “flight to quality” behaviour. The drop in oil prices due to the price war tensions between OPEC and Russia also contributed to the drop.

FUND PERFORMANCE

The Fund overall has, during this historic period of volatility and unprecedented economic disruption caused by COVID-19, has due to its diversified balance of investments managed to maintain most of the previous strong returns from previous years. The table below shows the rolling three year annualised relative return (i.e. Funds' return achieved compared with the benchmark) for the last 10 years.

Rolling 3 year annualised performance



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 Committee Members an opportunity to gain a deeper understanding of the investments, their decision making processes and their performance.

The Fund achieved a negative return of -1.7% against a benchmark of -1.9%.

The table over provides an analysis of how the Fund's investments performed against the Fund's benchmark

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Return on Investment as at 31/3/2020	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund	-1.7	-1.9	3.7	3.0
Global Equities	0.8	-5.1	6.4	3.1
UK Equities	-18.2	-18.2	-3.6	-4.1
Bonds	-1.8	3.4	1.2	3.6
Alternatives	1.4	5.0	2.9	4.7
Property	1.5	3.3	5.5	5.6
Cash	-	-	-	-

As shown in the table above the diversification of the Fund has ensured the full impact of the COVID-19 crises was not fully felt. UK Equities has seen the largest drop in valuations, fortunately only 10.4% of the Fund are invested in this group.



RESPONSIBLE INVESTMENT

Scottish Borders Council Pension Fund's (SBCPF) overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role the Fund 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.

The Fund approved a Statement of Responsible Investment Policy on 30 November 2018 setting out the approach to responsible investment and arrangements to monitoring manager performance against the principles of the policy on an annual basis. The key principles within the policy are:

- 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 gathering information to improve decision making, thereby managing risks.
- 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.
- The Fund wishes to see its environmental footprint minimised, its social responsibilities maximised and the highest standards of employee relations and corporate governance maintained.
- 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.

The Fund actively engages with Managers to ensure they are meeting these key principles and is incorporating ESG considerations into their investment decisions.

The Responsible Investment Policy also requires the Fund to review and report on an annual basis the performance of Managers. The first monitoring report was presented and approved by the Pension Fund Committee on 12 September 2019. The key highlights of this report are as follows:

- 11 out of 12 Managers are signatories of UNPIR representing 99.8% of the Fund.
- PRI annual assessment scored 9 out of 12 Managers as higher than median.
- Internal scoring methodology scored 94.6%; of the funds managed by managers, scored 80% or more than the total available scores.

For managers scoring less than 80% in the internal scoring methodology additional monitoring and engagement was undertaken.



Climate Change is a global challenge, which will have a significant impact on the global economy, corporations and society as a whole. The Paris Agreement of the United Nations Framework Convention on Climate Change set three main aims:

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change;

- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.



The Pension Fund as part of its responsible investment policy has become a signatory to Climate Action 100+ which was launched in December 2017 with the support of 225 investors representing \$26.3 trillion of assets. It now has 450 investors with assets of \$40 trillion under management. Scottish Borders Council Pension Fund became a signatory to this in March 2020.

As a signatory the Fund gives it support to the Climate Action 100+ in its engagement with boards and senior management of companies to:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities;
- Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goals of limiting global average temperature increase to well below 2°C above pre-industrial levels;
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enable investors to assess the robustness of companies' business plans against a range of climate and improve investment decision making.

SECTION 7

INDEPENDENT AUDITORS REPORT

**Scottish Borders Council Pension Fund
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CONTACT DETAILS

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

Pensions Team	Telephone 01835 – 825052/3
	E-mail pensions@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

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