

Public Document Pack



PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 24 SEPTEMBER 2020

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA
MICROSOFT TEAMS on THURSDAY, 24 SEPTEMBER 2020 at 10.00 AM

J. J. WILKINSON,
Clerk to the Council,

17 September 2020

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 5 - 10) Minute of Meeting held on 22 June to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	External Auditors Annual Audit Report (Pages 11 - 50) Consider report and covering letter from Audit Scotland (copy attached).	10 mins
6.	Annual Report and Accounts 2019/20 (Pages 51 - 140) Consider report by Executive Director Finance and Regulatory (copy attached).	5 mins
7.	Risk Register Update (Pages 141 - 148) Consider report by Executive Director Finance & Regulatory (copy attached).	10 mins
8.	Pension Administration Strategy (Pages 149 - 170) Consider report by Service Director HR and Communications (copy attached).	10 mins
9.	Communication Policy Review (Pages 171 - 182) Consider report by Service Director HR and Communications (copy attached).	10 mins
10.	Budget Monitoring to 30 June 2020 (Pages 183 - 186)	20 mins

	Consider report by Executive Director Finance and Regulatory (copy attached).	
11.	Responsible Investment Management (Pages 187 - 194) Consider report by Executive Director Finance and Regulatory (copy attached).	15 mins
12.	Information Update (Pages 195 - 204) Consider briefing paper by Executive Director Finance & Regulatory (copy attached)	15 mins
13.	Any Other Items which the Chairman Decides are Urgent	
14.	Any Other Items Previously Circulated	
15.	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.”	1 mins
16.	Minute (Pages 205 - 206) Private Section of Minute of Meeting held on 22 June 2020 to be noted and signed by the Chairman (copy attached).	2 mins
17.	Quarter Performance to 30 June 2020 (Pages 207 - 248) Consider report by Isio Investment Advisory (copy attached).	30 mins
18.	Infrastructure Update (Pages 249 - 252) Consider report by Executive Director Finance and Regulatory (copy attached).	5 mins

NOTES

- Timings given above are only indicative and not intended to inhibit Members' discussions.**
- 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 D Bell, Mr M Drysdale, Mr M Everett, Ms K M Hughes, Ms L Ross, Ms C Stewart and Ms H Robertson

Please direct any enquiries to Judith Turnbull Tel No. 01835 826556
Email: Judith.Turnbull@scotborders.gov.uk

This page is intentionally left blank

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

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
via Microsoft Teams on Monday, 22 June
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 C Stewart and
Ms L Ross

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

In Attendance: Executive Director Finance & Regulatory, Pensions and Investment Manager,
HR Shared Services Manager, Chief Officer Audit & Risk (paragraphs 1 – 11),
Principal Consultant (KPMG), Democratic Services Officer (J Turnbull).

1. **WELCOME**

The Chair opened the meeting and welcomed Members of the Pension Fund Committee, Pension Board and members of the public to the Scottish Borders Council's open on-line meeting. The meeting was being held remotely in order to adhere to guidance on public meetings and social distancing currently in place, due to the Covid-19 pandemic

2. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 10 March 2020.

DECISION

NOTED for signature by the Chairman.

3. **FUNDING STRATEGY STATEMENT & STATEMENT OF INVESTMENT PRINCIPLES 2020**

With reference to paragraph 2 of the Minute of 13 June 2019, there had been circulated copies of a report by the Executive Director Finance and Regulatory which proposed the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2020. The report explained that 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 discharged that requirement. The Pension Fund was required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles and Funding Strategy Statement. Appendix A, to the report, contained the Funding Strategy Statement. Appendix B, to the report, contained the revised Statement of Investment Principles (SIP) for approval. The Pensions and Investment Manager, Mrs Robb, explained that there were a few minor changes to the document, highlighting the name change of the Fund's investment consultant KPMG to Isio and the stock lending update.

DECISION

AGREED

(a) **The Funding Strategy Statement set out in Appendix A to the report; and**

(b) **The Statement of Investment Principles set out in Appendix B to the report**

PENSION BOARD MEMBER

Ms C Stewart joined the meeting following consideration of the above report.

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

With reference to paragraph 3 of the Minute of 13 June 2019, there had been circulated copies of a report by the Chief Officer Audit & Risk, which presented the Pension Fund Committee and the Pension Fund Board with the Internal Audit Annual Assurance Report for the year to 31 March 2020. The report included the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment. The report explained that the Public Sector Internal Audit Standards (PSIAS) required that the Chief Officer Audit & Risk provided 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. To meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2019/20 included the Internal Audit annual opinion, providing details of the Internal Audit activity during the year to support the opinion, and stated the conformance of the Council's Internal Audit service with the PSIAS. The Chief Officer Audit & Risk's opinion was that, based on Internal Audit reviews and knowledge, the systems of internal control operating in 2019/20 within the Scottish Borders Council Pension Fund were adequate, and governance and risk management arrangements were effective. The independent assurance opinion had been used to inform the Pension Fund's Annual Governance Statement 2019/20, and the Governance Policy and Compliance Statement 2019. The Chief Officer Audit & Risk, Ms Stacey, explained that there had been a slight change to the report format which provided further clarity on the Internal Audit annual opinion within Section 4.

DECISION

NOTED the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2019/20.

5. **GOVERNANCE POLICY & COMPLIANCE STATEMENT 2019**

With reference to paragraph 4 of the Minute of 13 June 2019, there had been circulated copies of a report by the Executive Director Finance and Regulatory which proposed the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. The report also requested approval of the Governance Compliance Statement, included in the Appendix to the report, for inclusion in the Pension Fund's Annual Report and Accounts 2019/20. The Governance Compliance Statement, demonstrated that the Pension Fund was in full compliance with best practice guidance. Mrs Robb explained that there had been minor changes to the document to reflect changes to officers' titles, change to Isio from KPMG and the merger of SB Cares LLP and SB Supports LLP with Scottish Borders Council.

DECISION

AGREED the revised Governance Policy and Compliance Statement 2019 and the Governance Compliance Statement for inclusion in the Pension Fund Annual Report and Accounts 2019/20.

6. **PENSION ADMINISTRATION PERFORMANCE 2019/20**

With reference to paragraph 5 of the Minute of 13 June 2019, there had been circulated copies of a report by the Service Director HR and Communications presenting the Pension Administration Performance 2019/20 and requesting the Committee's approval for its inclusion in the Annual Report for the Fund. Appendix 1 to the report contained the Pension Administration Performance for 2019/20 as it would be included in the Fund's Annual Report and Accounts. The report explained that 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. Performance remained at the expected high standard, which was testament to the dedication of the staff within the Pension 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. The Annual Benefit Statements had been issued in accordance with the 31 August deadline in

all instances. It was noted that the Employer Liaison Meeting scheduled for March was not held due to the Covid-19 pandemic. A review of the communication methods for future years would be carried out and, if circumstances allowed, the Council would consider holding the event on an annual basis and schedule in due course. Due to Covid-19 no payslips had 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 Covid-19 and the LGPS have been published on the Pension Fund website. In response to questions the HR Shared Services Manager advised that the payment from Jedburgh Leisure Facilities Trust had been delayed by two calendar days and there had been no explanation given for the lateness. Regarding the resignation of two staff members, Mr Angus confirmed that the Pension Team was now fully staffed.

DECISION

(a) NOTED the Pension Administration Performance for 2019/20 as set out in Appendix 1, to the report.

(b) AGREED the inclusion of the Pension Administration Performance for 2019/20 in the Pension Fund Annual Report and Accounts 2019/20.

7. TRAINING PLAN 2020/21

With reference to paragraph 6 of the Minute of 13 June, there had been circulated copies of a report by the Executive Director Finance and Regulatory comparing actual 2019/20 attendance for Pension Fund Committee and Pension Board members to the requirements detailed in the current Training Policy approved in June 2017. The report proposed key areas of training for 2020/21 in line with the Policy based on the Skills Knowledge assessment undertaken in April 2020, scores received were summarised in the table in paragraph 5.1 of the report and in more detail in Appendix 2 to the report. The Training Knowledge and Skills Assessment undertaken in April 2019 were summarised in Appendix 2 to the report. The proposed training areas for 2020/21 would focus on Financial Markets and Products, Investment performance and risk management, Pension Administration and General Pension Fund Regulatory environment. Members were 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. Mrs Robb explained that because of the Covid-19 pandemic the annual conference and training sessions would be delivered virtually this year. In response to a question regarding two Committee Members attending less than two events, Mrs Robb advised that she would investigate further and advise out with the meeting.

DECISION

(a) NOTED:

(i) The outcome of the 2019/20 training programme and the attendance levels for training and meetings; and

(iii) The outcome of the Knowledge and Skills Self-Assessment for 2020/21.

(b) AGREED the training areas for 2020/21 set out in paragraph 6.2 of the report and that all members should prioritise attendance at training events wherever practicable.

8. BUSINESS PLAN 2020/21 - 2022/23

With reference to paragraph 7 of the Minute 13 June 2019, there had been circulated copies of a report by the Executive Director Finance and Regulatory proposing the Pension Fund Business Plan 2020/21 and 2022/23 be approved. Best practice suggested that having a Business Plan for the Pension Fund was a good way of demonstrating compliance with the "Myners Principle" relating to effective decision making. Appendix 1, to the report, contained the first Pension Fund Business Plan covering the period 2020/21 – 2022/23. The Business Plan 2020/21 – 2022/23 identified

an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund.

DECISION

AGREED the Pension Fund Business Plan 2021/22 - 2022.23 as set Appendix 1 to the report.

MEMBER

Councillor Moffat joined the meeting during consideration of the above report.

9. **RISK REGISTER UPDATE**

With reference to paragraph 3 of the Minute of 10 March 2020, 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 actions taken by management to mitigate these risks. 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 May 2020 with officers from relevant departments to review and update the full risk register, the output of which was shown in Appendix 1. A summary of changes made during the review were detailed in paragraph 4.3 of the report. Two new risks had been identified in relation to global pandemics and the consequences on the assets and employers. These were detailed in paragraph 4.4 of the report. In line with the Council's Risk Management Policy (2018) a paper to be presented at the September meeting would report progress on management actions and present any new risks for consideration. Mrs Robb highlighted the two new risks: The first related to assets and investments and the risk that the funding level might fall and employers would be required to pay increased contributions. The second was in relation to loss of income due to closure of facilities and the risk of failure of employers to pay contributions with a loss of cash flow to pay pensioners. However, diversification of the Funds investment strategy meant that the Fund had recovered well during the pandemic. In response to a question regarding the implications of homeworking, the Chief Officer Audit & Risk. Ms Stacey, advised that the Council's Homeworking Policy was a key element of the Council's Corporate Risk Review which was scheduled shortly.

DECISION

AGREED

- (a) **The updated Full Risk Register as contained in Appendix 1 to the report; and**
- (b) **To an update on progress of management actions to be presented in September 2020.**

10. **PENSION FUND BUDGET OUT-TURN AS AT 31 MARCH 2020**

With reference to paragraph 9 of the Minute of 13 June 2019, there had been circulated copies of a report by the Executive Director Finance and Regulatory providing the Pension Fund Committee and Pension Board with the budget out-turn position for the Pension Fund Budget to 31 March 2020. The Local Government Pension Scheme (Scotland) Regulation 2014 required administering authorities to ensure strong governance arrangements and set out standards they were to be measured against. To ensure the Fund met these standards the budget for 2019/20 was approved on 7 March 2019 following the standard presentation recommended by the CIPFA accounting guidelines. The report was the final out-turn report of the approved budget. The total expenditure to 31 March 2020 was £5.9m against a budget of £6.4m giving an underspend of £0.5m.

DECISION

NOTED the actual expenditure against budget to 31 March 2020

11. **DRAFT ANNUAL REPORT (INCLUDING ANNUAL ACCOUNTS)**

With reference to paragraph 10 of the Minute of 13 June 2019, there had been circulated copies of a report by the Executive Director Finance and Regulatory presenting for scrutiny and approval the draft Annual Report and Accounts for the Pension Fund for 2019/20 prior to submission to the external auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, the list of these were contained in paragraph 4.1 of the report. The draft Report and Accounts were still subject to statutory Audit, which would commence early July 2020. Following the statutory Audit process the final Report and Accounts would be circulated to the joint Committee and Board to review and recommend for approval. Mrs Robb explained that the Annual Report format had changed to be more transparent and met requirements of the guidance. Mrs Robb advised that Section 6 of the report had been expanded to include different categories of individual managers. The final version of the report would be included in the Auditor's report.

DECISION

NOTED the Pension Fund Annual Report and Accounts 2019/20, contained in Appendix 1 to the report, prior to their submission to the Council's Audit and Scrutiny Committee on the 23 June 2020, and supports their submission for review by the External Auditors, Audit Scotland as part of the subsequent audit process.

MR A BARCLAY

The Chair advised that as Mr Eck Barclay was retiring, this would be his last meeting. The Chair thanked Eck for his commitment and valuable input, of over 20 years, to the Pension Fund and wished him a long, happy retirement.

12. **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.

13. **MINUTE**

The Committee noted the Private Minute of the meeting of 10 March 2020.

14. **QUARTER PERFORMANCE TO 31 MARCH 2020**

The Committee considered a private report by Isio.

15. **INFRASTRUCTURE PERFORMANCE**

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 11.30 am

This page is intentionally left blank

Pension Fund Committee

24 September 2020

Dear Pension Fund Committee Members

Scottish Borders Council Pension Fund Audit of 2019/20 annual accounts

Independent auditor's report

1. Our audit work on the 2019/20 annual accounts is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 5 November 2020.
2. We have included an 'Emphasis of Matter' paragraph in the audit report. This draws attention to the reference in Note 5 'Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty' in the notes to the financial statements which describes the effects of uncertainties caused by Covid-19 on property investment portfolio valuations. The audit opinion is not modified in respect of this matter.
3. The proposed report is attached at [Appendix A](#).

Annual audit report

4. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pension Fund Committee's consideration our draft annual report on the 2019/20 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
5. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
6. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

7. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

8. We identified one unadjusted error during the audit relating to late valuations for level 3 investment assets. If corrected, this would have decreased investment asset values by £0.94 million.

Fraud, subsequent events and compliance with laws and regulations

9. In presenting this report to the Pension Fund Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Executive Director Finance and Regulatory

10. As part of the completion of our audit, we are seeking written representations from the Executive Director Finance and Regulatory on aspects of the annual accounts, including the judgements and estimates made.
11. A letter of representation template is attached at [Appendix B](#). This should be signed and returned to us by the Executive Director Finance and Regulatory with the signed annual accounts prior to the independent auditor's report being certified.

Yours faithfully,

Gillian Woolman MA FCA CPFA

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Scottish Borders Council Pension Fund (the fund) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is four years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – Property Investment Portfolio Valuations

I draw attention to Note 5 'Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty' in the notes to the accounts, which describes the effects of a material uncertainty caused by Covid-19 on property investment portfolio valuations. My opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director Finance and Regulatory has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director Finance and Regulatory and Scottish Borders Council Pension Fund Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director Finance and Regulatory is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director Finance and Regulatory determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director Finance and Regulatory is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Scottish Borders Council Pension Fund Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Executive Director Finance and Regulatory is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has

been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

APPENDIX B: Letter of Representation (ISA 580)

Gillian Woolman, Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

Dear Gillian

Scottish Borders Council Pension Fund Annual Accounts 2019/20

1. This representation letter is provided about your audit of the annual accounts of Scottish Borders Council Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Scottish Borders Council Pension Fund's annual accounts for the year ended 31 March 2020.

General

3. Scottish Borders Council Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2019/20 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Scottish Borders Council Pension Fund have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (2019/20 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Scottish Borders Council Pension Fund at 31 March 2020 and the transactions for 2019/20.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2019/20 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Scottish Borders Council Pension Fund circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Scottish Borders Council Pension Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Scottish Borders Council Pension Fund's ability to continue as a going concern.

Assets

10. For the year ended 31 March 2020, the amounts included in the Net Assets Statement reflects investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the funds. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2020. In making these assertions I am reliant on the opinions of the appointed fund managers. I am satisfied that the carrying amount of assets included in the financial statements at 31 March 2020 continues to represent the best available information while recognising the additional uncertainty created by the impact of the Covid-19 pandemic. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Banking and Cash Flow Arrangements

11. Scottish Borders Council Pension Fund maintains separate bank accounts and while these accounts form part of Scottish Borders Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

12. On realisation in the ordinary course of the Funds' business, the other current assets in the Net Assets Statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular, adequate provision has been made against all amounts owing which are known or may be expected to be irrecoverable.

Liabilities

13. All liabilities at 31 March 2020 of which I am aware have been recognised in the annual accounts.
14. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Management commentary

15. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

16. I acknowledge, as officer with the responsibility for the proper administration of the funds' financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. The fund has undertaken a review of the system of internal control during 2019/20 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
17. I confirm that the Annual Governance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers and in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. Also, I have reviewed the Governance Compliance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2020, which require to be reflected.

Related Party Transactions

18. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2019/20 accounting code. I have made available to you the identity of all the fund's related parties and all the related party relationships and transactions of which I am aware.

Fraud

19. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.
20. There have been no irregularities involving management or employees who have a significant role in internal controls that could have a material effect on the financial statements.

Laws and Regulations

21. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Events Subsequent to the Date of the Net Assets Statements

22. There have been no material events since the date of the Net Assets Statements which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
23. Since the date of the Net Assets Statements no events or transactions have occurred, which though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

Executive Director Finance and Regulatory

This page is intentionally left blank

Scottish Borders Council Pension Fund

2019/20 Annual Audit Report



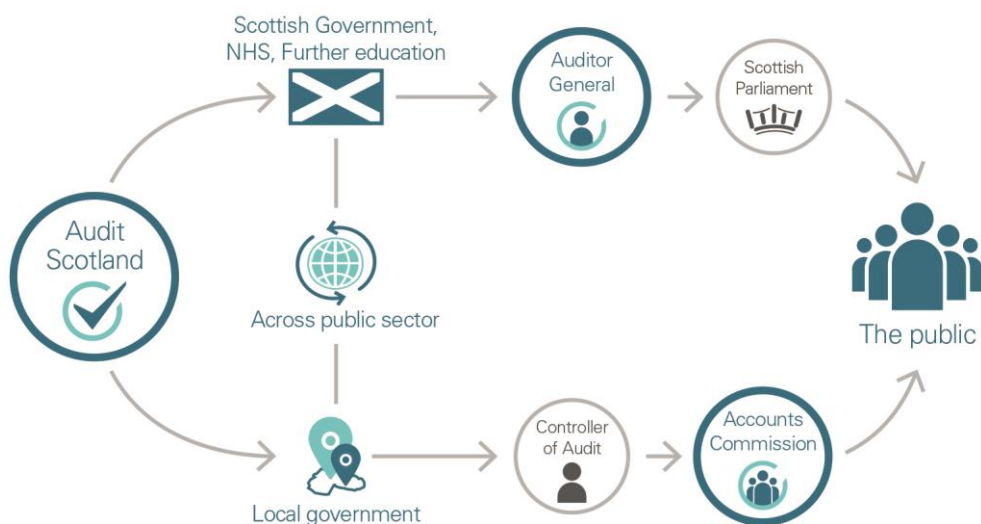
 AUDIT SCOTLAND

Prepared for Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the
Controller of Audit
September 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Key messages	4
Introduction	6
Part 1 Audit of 2019/20 annual accounts	9
Part 2 Financial management	12
Part 3 Financial sustainability	15
Part 4 Governance and transparency	18
Part 5 Value for money	21
Appendix 1 Action plan 2019/20	23
Appendix 2 Significant audit risks identified during planning	27
Appendix 3 Summary of national performance reports 2019/2020	29

Key messages

2019/20 annual accounts

- 1 Scottish Borders Council Pension Fund's (the Fund) financial statements give a true and fair view and were properly prepared.
- 2 An 'Emphasis of Matter' paragraph is included in the independent auditor's report to draw attention to the impact of Covid-19 on property investment valuations. The audit opinion is not modified in respect of this.

Financial management

- 3 There are effective arrangements in place for financial management.
- 4 The Fund had a negative performance of 1.7% during 2019/20, against a benchmark of negative 1.9%. On a rolling three year basis, performance is 3.8% which is above the benchmark of 3%. The Fund is continuing to make progress with its asset strategy, reducing exposure to equity investment from 48% to 44% of the total fund.

Financial sustainability

- 5 There are appropriate and effective financial planning arrangements in place.
- 6 The 2017 triennial valuation showed a funding level of 114%, the highest in Scotland, and an increase from 101% in 2014. This allowed the main pool of employing bodies to maintain their employer contribution rate at 18%. Work on the next triennial valuation as at 31 March 2020 is currently underway with an anticipated completion date of March 2021.

Governance and transparency

- 7 There are effective governance arrangements in place.
- 8 Papers and minutes of meetings are available on the Council's website. There is also a dedicated website for the Fund, making available a wide range of important information relevant to members
- 9 On 26 March 2020 Scottish Borders Council held a virtual meeting to agree temporary decision-making arrangements to minimise social contact. All routine Council and Committee meetings were cancelled and additional powers were delegated to the Chief Executive. From May 2020, Council Committee meetings restarted and meetings were held on a virtual basis. The Pension Fund Committee and Pension Board held their first virtual meeting on the 22nd June 2020. We consider these changes to be appropriate.
- 10 The Fund demonstrates commitment to Environmental, Social and Corporate Governance (ESG) issues through the approval of the Statement of Responsible Investment Policy, by actively engaging with investment managers to ensure they are incorporating ESG considerations into their investment decisions and by becoming a signatory to Climate Action 100+.

Value for money

- 11** There are good arrangements in place for monitoring investment performance and scrutinising investment management expenses.
- 12** Investment performance is subject to regular review and scrutiny by the Fund's Investment Sub-Committee.

Introduction

1. This report is a summary of our findings arising from the 2019/20 audit of Scottish Borders Council Pension Fund (the Fund).

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2020 meeting of the Audit and Scrutiny Committee. This report comprises:

- an audit of the Fund's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2019/20 have been:

- an audit of the Fund's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of the Fund's main financial systems
- consideration of the four audit dimensions.

Added Value

4. We add value to the Fund through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations

- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. Taking this together, we aim to help the Fund promote improved standards of governance, better management and decision making, and more effective use of resources.

Responsibilities and reporting

6. Scottish Borders Council (the 'Council') is the administering authority for the Scottish Borders Council Pension Fund. The Council delegates this responsibility to the Pension Fund Committee (the 'committee'). The Pension Fund Board (the 'Board') is responsible for establishing arrangements to ensure the proper conduct of the affairs of the Fund in accordance with the law and the requirements of the Pensions Regulator.

7. The Committee and Board are responsible for establishing effective governance arrangements and ensuring that financial management is effective. In the case of Scottish Borders Council Pension Fund, the arrangement is for the Council's Audit and Scrutiny Committee to review the effectiveness of internal control arrangements and to recommend the annual report and accounts for approval by the Council.

8. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements,
- suitability and effectiveness of corporate governance arrangements, and financial position and,
- arrangements for securing financial sustainability.

10. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

13. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

14. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £21,040 as set out in our Annual Audit Plan remains unchanged.

15. This report is addressed to both the members of the Scottish Borders Council as administering authority for the Scottish Borders Council Pension Fund and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

16. We would like to thank management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual accounts



Main judgements

Scottish Borders Council Pension Fund's (the Fund) financial statements give a true and fair view and were properly prepared.

An 'Emphasis of Matter' paragraph is included in the independent auditor's report to draw attention to the impact of Covid-19 on property investment valuations. The audit opinion is not modified in respect of this.

The annual accounts are the principal means of accounting for the stewardship of resources and performance

Our audit opinion on the annual accounts is unmodified

17. The annual accounts for the year ended 31 March 2020 were approved by Scottish Borders Council on 5 November 2020. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

18. All working papers were provided electronically and the audit team were able to complete the audit remotely. The working papers provided with the unaudited financial statements from the finance team were of a good standard and finance staff provided support to the audit team which helped ensure the audit process ran smoothly.

19. The working papers provided by the Human Resources Shared Services (HRSS) team were of an adequate standard and HRSS staff provided reasonable support to the audit team, however we did experience some instances where there was a slow turnaround in receiving documents from this team.

Objections

20. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for Scottish Borders Council Pension Fund was published on the website of the administering authority (Scottish Borders Council) and complies with the regulations. No objections were received to the Scottish Borders Council Pension Fund accounts.

Submission of annual accounts for audit

The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 sufficient to allow each

local authority to determine its own revised timetable for the Annual Accounts. The unaudited Annual Report and Accounts were received in line with our agreed audit timetable on 29 June 2020.

Consideration of materiality

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

22. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

23. In addition to planning materiality we set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the accounts.

24. We recognise that transactions with members and payments to pensioners are areas of importance to the users of the accounts and we set specific materiality levels as shown in [Exhibit 2](#).

25. On receipt of the unaudited annual report and accounts we reviewed our materiality and revised the figures as set out in Exhibit 2 below. The method used to calculate materiality is consistent with the planned approach.

Exhibit 2 Materiality values

Materiality level	Planning Amounts (based on 2018/19 accounts)	Revised Amounts (based on 2019/20 accounts)
Overall materiality	£7.33 million	£7.13 million
Performance materiality	£4.40 million	£4.28 million
Reporting threshold	£220,000	£214,000
Specific materiality for certain classes of transactions	£2.28 million	£2.36 million
Specific performance materiality for certain classes of transactions	£1.37 million	£1.42 million

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

26. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance in relation to these risks.

Significant findings from the audit in accordance with ISA 260

27. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant findings from our audit are summarised in [Exhibit 3](#)

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Material uncertainty in the valuation of property investments</p> <p>Property investments for Blackrock and UBS portfolio valuations both include a "material valuation uncertainty clause". The investment valuations affected amount to £98m, which is 13.7% of total investment asset value. Covid-19 meant the property sector were faced with an unprecedented set of circumstances on which to base a judgement.</p> <p>As at the valuation date, fund managers considered that less weight could be given to previous market evidence for comparison purposes to inform opinions of value. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.</p>	<p>Scottish Borders Council Pension Fund updated their accounting policies in the Annual Report and Accounts to disclose this material valuation uncertainty.</p> <p>We have included an 'Emphasis of Matter' paragraph in our independent auditor's report to highlight this matter. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. The audit opinion is not modified in respect of this matter.</p> <p>No further action required.</p>

Identified misstatements of £0.94 million were not adjusted in the accounts. These were less than our performance materiality

28. We identified misstatements totalling £0.94 million, which would have decreased investment asset values by £0.94 million. These consist of late valuations received for Level 3 assets. The valuations for these assets are included in the accounts with a lagged valuation date of 31 December 2019. The valuations were not available when the unaudited accounts were issued. The final valuations were received during our audit. After discussions with management, we concluded that adjustments for these final valuations were not required as the total adjustment required of £0.94 million is below our performance materiality level. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety, and do not indicate any systemic error.

Follow up of prior year recommendations

29. Management has made adequate progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

There are effective arrangements in place for financial management.

The Fund had a negative performance of 1.7% during 2019/20, against a benchmark of negative 1.9%. On a rolling three year basis, performance is 3.8% which is above the benchmark of 3%. The Fund is continuing to make progress with its asset strategy, reducing exposure to equity investment from 48% to 44% of the total fund.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial Performance in 2019/20

30. Pension fund finances are independently assessed every three years by an actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming three-year period and takes account of the strength of employer covenants and the Fund's investment strategy.

31. The Fund's performance in 2019/20 is summarised in [Exhibit 4](#)

Exhibit 4

Assets, funding level and investment performance

Decrease in net assets



£713 million

Closing net assets as at
31 March 2020

(-2.72%)

£733 million

Opening assets at 1 April 2019

Funding level



114%

2017 Funding Valuation

101%

2014 Funding Valuation

Investment performance



6.3%

Average annual return on
investments over 5 years

-1.7%

Return on investments 2019/20

Source: 2019/20 Scottish Borders Council Pension Fund unaudited annual report and financial statements

32. The promised retirement benefits at 31 March 2020 have been projected by the actuary using a roll forward approximation from the latest formal funding valuation as at 31 March 2017. These have been estimated at £887 million (2018/19 – £941 million), showing a 5.7% decrease. This estimate uses assumptions in line with Internal Accounting Standards (IAS) 19 requirements, for the purposes of the Fund's financial statements. It is not directly comparable to the liability measures on a funding basis.

33. The information contained in [Exhibit 3](#) demonstrates that the Fund has performed relatively well in 2019/20. The Fund has seen a negative performance of 1.7%, against a benchmark of negative 1.9%. The rebalancing of the asset portfolio has meant that the Fund has not been subjected to the full effect of market volatility due to Covid-19.

34. Although the Fund continues to perform well, management are aware that a number of challenges face the Fund and the wider environment in which it operates. A number of issues may increase pressure on the future funding position, including economic growth and the impact of EU withdrawal. Pension specific issues such as the scheme cost cap mechanism, guaranteed minimum pension (GMP) equalisation and the McCloud ruling on age discrimination within pension schemes, are also likely to impact on the funding position in the coming years.

35. The Fund has considered these challenges and continues to monitor risks through the corporate risk register. The funding strategy statement and investment strategy are reviewed and revised following actuarial valuations to ensure that the Fund is well placed to continue to meet its liabilities.

36. The 2019/20 – 2021/22 business plan identifies a number of key priorities for the years ahead.

Financial management arrangements

37. The Executive Director Finance and Regulatory for Scottish Borders Council is the Proper Officer responsible for Scottish Borders Council Pension Fund. The financial regulations of Scottish Borders Council, as administering authority, apply to the Fund. We consider these to be comprehensive, current, and promote good financial management.

38. Investment performance reports are submitted to the Pension Fund Committee on a quarterly basis, with administration performance reports submitted annually. Reports are comprehensive and well presented with enough narrative to describe issues to Councillors and other committee members. Through our attendance at the Pensions Committee we have observed adequate level of review and scrutiny by members. The Council has delivered training to members of the committee during the year including training on Financial markets and Investment Products, Investment Concepts and Terminology, the role of the Fund Custodian, LGPS Benefits Structure and Regulatory Environment. It is important that Committee members undertake all given training to ensure knowledge and skills are kept current.

39. Overall, the Fund has appropriate and effective financial management arrangements in place. This includes comprehensive reporting of investment performance.

Systems of internal control

40. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Scottish Borders Council Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. The Pension Fund uses the administering authority's key financial systems, in particular the general ledger, payroll and accounts payable systems. We **Page 33** concluded that overall

systems of internal control are operating effectively we did identify issues relating to the validation of pensioners. These are detailed in [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation.

Standards of conduct and arrangements for prevention and detection of fraud and error

41. Scottish Borders Council Pension Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct.

42. We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the Scottish Borders Council's arrangements for the prevention and detection of fraud and corruption. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers

43. We have concluded that appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgement

There are appropriate and effective financial planning arrangements in place.

The 2017 triennial valuation showed a funding level of 114%, the highest in Scotland, and an increase from 101% in 2014. This allowed the main pool of employing bodies to maintain their employer contribution rate at 18%. Work on the next triennial valuation as at 31 March 2020 is currently underway with an anticipated completion date of March 2021.

Financial sustainability looks forward to the medium and longer term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

Financial planning arrangements

44. The March 2017 triennial valuation for the Fund (issued in December 2017) reported that fund assets were sufficient to meet 114% of its liabilities. The primary employer contribution rate was increased to 20.6%, however, on the actuary's advice, the Fund has utilised the over-funding to set the secondary rate at a level to maintain employer contributions at 18%.

45. The March 2020 triennial valuation for the Fund is currently underway with a completion date anticipated of March 2021. This will be the first triennial valuation completed by the newly appointed actuary of the Fund, Hymans Robertson, who replaced Barnett Waddingham as the Fund's actuary in 2019.

46. Following each triennial valuation, the Fund reviews and revises the funding strategy statement. The next full review is due to be completed by 31 March 2021.

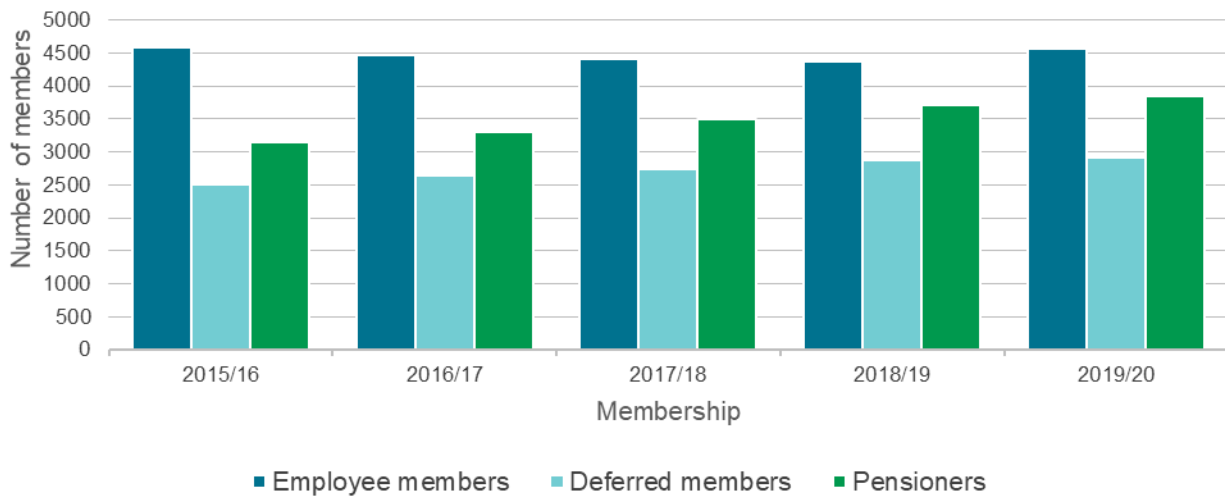
47. The funding strategy statement is a summary of the Fund's approach to funding liabilities. The investment strategy is set for the long-term but is monitored continually and reviewed every 3 years using asset-liability modelling to ensure that it remains appropriate to the profile of the Fund's liabilities. The investment strategy is outlined in the Fund's statement of investment principles.

48. We concluded that the Fund has an appropriate framework in place through which it demonstrates effective financial planning.

Membership levels

49. The Fund is a multi-employer fund with one Local Authority, and 16 other employers. The current membership profile is shown at [Exhibit 5](#). The number of active members continues to outweigh the number of pensioners.

Exhibit 5 Scottish Borders Council Pension Fund membership



Source: Scottish Borders Council Pension Fund 2019/20 unaudited financial statements

50. Membership increased from 10,961 to 11,338 members at 31 March 2020; a total increase in membership of 3.4%. After decreasing in recent years, employee members grew over the last year by 4.5%. These contributing employee members assist with the cash flow of the fund. Deferred non-contributing members increased by 1% and pensioners increased by 4%.

51. The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each member's life. It is important that the Fund maintains the capacity to meet the current and future pension entitlements of its members.

52. In 2019/20 the number of pensioners receiving a pension increased from 3,707 to 3,856, an increase of 4.0%. The number of pensioner members continues to increase steadily each year, as can be seen from the exhibit above, and is a key contributor to the ongoing deficit.

53. Future membership numbers are difficult to predict with any certainty as they are dependent on a number of factors including employer budgets, recruitment decisions, and promotion of the pension scheme.

54. With most employers still open to new membership and with continuing support from auto enrolment, the recent trend of growth in membership seems likely to continue for the foreseeable future.

Contributions

55. Following the latest triennial valuation in 2017, the Actuary agreed employer contribution rates with individual employers for 2018/19 onwards. For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates. The approximate split of all contributions received in year is set out at [Exhibit 6](#).

Exhibit 6

Contributions in 2019/20

	Administering authority	Other scheduled bodies	Admitted bodies	Total
	£m	£m	£m	£m
Total Contributions	15.5	0.9	3.4	19.8

Source: Scottish Borders Council Pension Fund 2019/20 unaudited financial statements

56. The Fund reported a deficit of £5.3m in 2019/20. This means that pension payments out exceeded member contributions in, and investment income was used to ensure pensions were paid.

57. The continued growth in pensioner numbers makes funding pension payments increasingly challenging. The Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets.

58. As mentioned earlier in the report, the 2020 triennial valuation is currently underway with results anticipated in March 2021. The outcome of this valuation may lead to future revisions to the investment strategy and asset allocation based on the advice of the newly appointed actuary, Hymans Robertson. The outcome of this valuation and revisions to investment strategy may also result in changes to contribution rates going forward.

Part 4

Governance and transparency



Main judgements

There are effective governance arrangements in place.

Papers and minutes of meetings are available on the Council's website. There is also a dedicated website for the Fund, making available a wide range of important information relevant to members.

On 26 March 2020 Scottish Borders Council held a virtual meeting to agree temporary decision-making arrangements to minimise social contact. All routine Council and Committee meetings were cancelled and additional powers were delegated to the Chief Executive. From May 2020, Council Committee meetings restarted and meetings were held on a virtual basis. The Pension Fund Committee and Pension Board held their first virtual meeting on the 22nd June 2020. We consider these changes to be appropriate.

The Fund demonstrates commitment to Environmental, Social and Corporate Governance (ESG) issues through the approval of the Statement of Responsible Investment Policy, by actively engaging with investment managers to ensure they are incorporating ESG considerations into their investment decisions and by becoming a signatory to Climate Action 100+.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Governance arrangements

59. Scottish Borders Council is the administering body for Scottish Borders Council Pension Fund. The Council has delegated responsibility for governance to the Pension Fund Committee. This committee, supported by the Board (made up of four scheme employer representatives and four trade union representatives), is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

60. There has been a change to the Scheme of Administration with regards to the delegation of decision making for the annual report and accounts sign off. From 2019/20 the Pension Fund Committee will review the annual report and accounts and recommend the accounts approval to the Council. The annual report and accounts will also be submitted to the Audit and Scrutiny Committee for noting. We consider this to demonstrate good governance arrangements. Pension Fund committee members receive pension fund specific training, which equips them to effectively scrutinise the annual report and accounts.

The Covid-19 pandemic has affected governance and working arrangements

61. The impact of Covid-19 has been set out in the Annual Governance Statement in the annual report and accounts. We note that the following changes were made in response to the outbreak.

62. On 26 March 2020 Scottish Borders Council held a virtual meeting to agree temporary decision making arrangements to minimise social contact during the pandemic. It was agreed all formal Council and Committee meetings be cancelled unless required for statutory reasons and additional powers delegated to the Chief Executive in consultation with Officers and Members. From May 2020, Council Committee meetings restarted and meetings were held on a virtual basis. The Pension Fund Committee and Pension Board held their first virtual meeting on the 22nd June 2020.

63. Business continuity plans were implemented with staff mainly working at home with full access to systems and files. During the pandemic services have been maintained and payments made in a timely manner.

64. The arrangements detailed above are appropriate and adequate and support good governance and accountability.

Openness and transparency

65. Openness and transparency means that the public, in particular, members of the pension fund have access to understandable, relevant and timely information about how the Fund is taking decisions and how it is using resources.

66. The Pension Fund Committee and Board meetings are held in public with commercially sensitive information dealt with in private sessions. Minutes of the public meetings are available on the Scottish Borders Council website.

67. Overall, we conclude that the Fund conducts its business in an open and transparent manner.

Appropriate arrangements are in place to comply with the Pensions Regulator Public Service Code

68. There were no breaches of the Code that required to be reported to the Pensions Regulator in 2019/20.

The Fund is actively considering the future structure of Local Government Pension Scheme in Scotland

69. The Scottish Scheme Advisory Board is undertaking a review of the future structure of the Local Government Pension Scheme in Scotland. Four options have been identified by the board:

- Retain the current structure of eleven funds
- Promote cooperation in investment and administration between the eleven funds
- Pool investments between the funds
- Merge the funds into one or more funds.

70. Stakeholder views were sought through a consultation process and the Fund submitted a response in December 2018. Following the consultation process, a draft report incorporating stakeholder views was considered at the Scottish Scheme Advisory Board meeting on 24 April 2019. The outcome of this meeting is still awaited.

The Fund is actively considering Environmental, Social and Corporate Governance factors

71. The Fund believes that a positive approach to Environmental, Social and Corporate Governance issues can have a positive impact on the financial performance of investments.

72. The Fund approved a Statement of Responsible Investment Policy on the 30 November 2018 which details the Fund's approach to responsible investment and arrangements to monitor manager performance against the principles in this policy. The overwhelming majority of fund managers engaged with Scottish Borders Council Pension Fund (99.8%) are signatories to the United Nations Principles for Responsible Investment. The Fund became a signatory to Climate Action 100+ in March 2020. As a signatory the Fund supports Climate Action 100+ in its engagement with the boards and senior management of companies around the world to implement a strong governance framework, take actions to reduce greenhouse gas emissions and provide enhanced corporate disclosures.

Part 5

Value for money



Main judgements

There are good arrangements in place for monitoring investment performance and scrutinising investment management expenses.

Investment performance is subject to regular review and scrutiny by the Fund's Investment Sub-Committee.

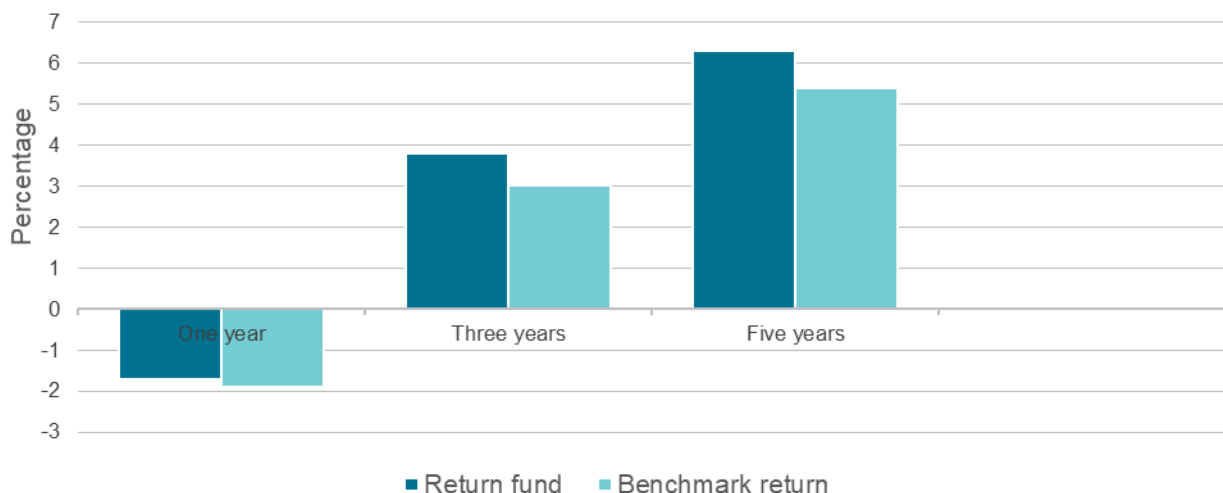
Value for money is concerned with using resources effectively and continually improving services.

Investment performance

73. The Pension Fund Investment and Performance Sub-Committee meets twice a year. A review of fund managers' performance is a standing item on the agenda. At each meeting, members receive a report outlining overall fund performance including an analysis of risks and returns.

74. [Exhibit 7](#) shows the Fund's performance against benchmark over one, three and five years.

Exhibit 7 Fund investment performance



Source: Scottish Borders Council Pension Fund 2019/20 unaudited financial statements

75. Over the medium to longer term the Fund has outperformed its benchmark over three and five years. Benchmarks are set by the Pension Fund in consultation with their investment consultant, Isio.

76. The Fund appoints several external fund managers. Individual investment manager performance is reported on a quarterly basis to the Pension Fund

Committee by the investment consultant, Isio. In addition, all investment managers are subject to review at least annually by the Investment and Performance Sub-Committee, and again by management to discuss operational issues. Fund managers are required to complete annual compliance checklists which are reviewed by management for instances of non-compliance with laws and professional standards

77. The investment strategy of the Fund is included in the Statement of Investment Principles which was last updated in September 2018. The Fund has adopted a risk/return asset framework as the basis for modelling and agreeing the investment strategy. The Fund is made up of 44% equities, a 4% decrease from 2018/19. The Fund continues to invest in other assets classes such as long-lease property, private credit and infrastructure, by partnering with Lothian Pension Fund.

78. The investment strategy focuses on increasing the diversification of the portfolio, including increasing allocations in income generating assets and assets which offer a greater level of protection from inflation. The strategy also takes the unpredictability of future economic conditions into consideration and continues to diversify in order to be more resilient to future challenges.

79. Investment return and risk are inextricably linked, and it is not possible for us to comment on the relative performance of the Fund's investments given the risk exposure of the asset allocation and investments made. Although asset allocation is largely in line with the Fund's investment strategy, the Fund retains overweight positions in equity as the implementation of the current investment strategy continues. Management are working with the Investment Consultant to identify appropriate opportunities to invest, in line with the agreed strategy.

80. The Covid-19 outbreak dominated markets over Q1 2020, with the social and economic impacts of the virus resulted in heightened volatility and negative performance across the majority of asset classes. The rebalancing and diversification work of the fund, which has been ongoing for the past 5 years, has meant the full effect of the market crash has not been felt by the Fund.

Management Expenses

81. There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the Council and oversight and governance costs.

82. External investment manager fees are agreed in the respective mandates governing their appointments. The fees are relative to the risk and complexity involved in managing a particular asset and strategy.

83. Investment management expenses have decreased from £5.8 million in 2018/19 to £5.3 million in 2019/20. The main reason for this decrease in expenses relates to the 2.4% decrease in asset value.

84. The Fund has encouraged all of its listed equity investment managers to sign up to the Code of transparency and has engaged with managers of other asset classes to do the same.

85. The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

National performance audit reports

86. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, we published reports which may be of interest to the Fund. These are outlined in [Appendix 3](#) accompanying this report.

Appendix 1

Action plan 2019/20

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Pensioner validation using ATMOS reports</p> <p>As part of our review of pension payment controls, we requested a sample of ATMOS match reports for testing. These reports are used by management to identify deceased pensioners so that pension payments are stopped in a timely manner, minimising overpayments.</p> <p>The ATMOS match reports we received for testing were five months old. Therefore, there is no evidence that the matches have been investigated by management in a timely manner.</p> <p>Risk</p> <p>There is a risk that, without prompt investigation by management, pensions are being overpaid.</p>	<p>ATMOS reports should be reviewed and any matches investigated in a timely manner to prevent any overpayments to deceased pensioners.</p> <p>Paragraph 40</p>	<p>Action being taken to address this, including the training of further members of the Pensions Administration Team to remove Single Point of Failure</p> <p>Responsible officer</p> <p>Ian Angus, HR Shared Services Manager</p> <p>Agreed date</p> <p>31 October 2020</p>
2	<p>Validation of overseas pensioners</p> <p>Validation of pensioners is considered a key control that should be in place to ensure that pensioners in receipt of pensions are still eligible to receive payment.</p> <p>We identified that, whilst letters and statements are issued to overseas pensioners, the process to ensure their existence, has not been carried out during 2019/20.</p> <p>Risk</p>	<p>The existing process in place should be reviewed to ensure it is still appropriate. The process should be actioned on a frequent basis to ensure existence of overseas pensioners.</p> <p>Paragraph 40</p>	<p>Overseas Pensioners have been written to and asked to provide confirmation by 30 September 2020, any failures to respond will result in pension payment being suspended for the October payroll</p> <p>Responsible officer</p> <p>Ian Angus, HR Shared Services Manager</p> <p>Agreed date</p> <p>31 October 2020</p>



No. Issue/risk

Recommendation

Agreed management action/timing

There is a risk that without adequate controls being in place to validate the existence of pensioners, pensions are paid to deceased pensioners

Follow up of prior year recommendations

3 Key reconciliations are not being performed

On selecting a sample of debtors and creditors for further testing, we found that several balance sheet codes (e.g. pension suspense accounts) are not being reviewed or reconciled.

Risk

There is a risk of uncorrected errors not being identified on a timely basis.

Management should perform monthly reconciliations across payroll to ensure all balances are investigated and adjusted when necessary.

Outstanding

Work continues on the remaining balance sheet codes and monthly reviews will be implemented

Responsible officer

Ian Angus, HR Shared Services Manager

Agreed date

31 October 2020

4 Reconciliation of pensions paid figure

There is no monetary reconciliation performed to show the total pensions paid figure agrees with the ledger. Therefore, the total pensions paid figure cannot be tied back to the ledger.

The HRSS manager advised that there has never been a reconciliation performed between pensions paid figure and the financial ledger.

A monthly report run for differences in payments from one month to the next is available but unfortunately due to work pressures and staff shortages this has not been completed for this financial year. This would be an effective control over the pensions paid figure on a month by month basis.

Risk

The figures in the financial ledger could be under or overstated.

The pensions paid figure should be reconciled month on month and variances to the ledger investigated. Management should perform monthly reconciliations between the pensions paid figure and the ledger.

UPDATE 2019/20

Whilst there is an automated nature to the transfer of the figures between the payroll system and ledger data, there is a residual risk that manual intervention to the financial ledger codes may impact ledger data. The inclusion of this control will strengthen the control environment.

Outstanding

Report used to undertake the verification of the month on month payments has been updated to include the ledger information, this will be reconciled to the ledger entries on a monthly basis to ensure there are no additional entries processed

Responsible officer

Ian Angus, HR Shared Services Manager

Agreed date

31 October 2020



No.	Issue/risk	Recommendation	Agreed management action/timing
5	<p>Financial & HR Capacity</p> <p>We found that staff capacity is still showing signs of pressure. There is dependency on key staff in Finance and in Human Resources Shared Services (HRSS).</p> <p>Strain on staff resources in HRSS has meant key reconciliations and working papers were not available or prepared to a level suitable for audit from HRSS.</p>	<p>Resource requirement of the Pension Fund should be assessed within both departments and addressed to ensure administration of the Fund is efficient and effective.</p>	<p>In progress</p> <p>Through discussions with management, we noted a new staff member has been appointed within the finance team which will reduce the key dependency on one member of staff in this department.</p> <p>Within the HRSS team, we were advised that whilst there are no staff capacity issues in terms of staff numbers, there has been various staff changes/unexpected absences which have caused some challenges.</p> <p>With ongoing challenges and uncertainty anticipated for the fund including work required on the outcome of the GMP reconciliation and the McCloud judgement, the outcomes of these will be monitored and resources will be reviewed for these additional challenges.</p> <p>Management are continuing to monitor this.</p> <p>Revised Management Action</p> <p>Impact of additional challenges through legislative changes will be monitored to ensure there is appropriate staffing levels to deal with this and business as usual. Additionally, we are in the process of implementing Members Self Service which help reduce the number of routine enquiries from scheme members where they will be able to obtain quotes directly via the self service functionality and removes the need to issue Annual</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			<p>Benefit Statement in paper format.</p> <p>Responsible officer</p> <p>Ian Angus, HR Shared Services Manager</p> <p>Agreed date</p> <p>31 March 2021</p>
6	<p>Evidence of review of exception reporting</p> <p>Controls over the pension payroll such as the investigation of exception reporting were in place. However, there was no evidence of management review of the control.</p> <p>Risk</p> <p>There is a risk that without evidence of review, the quality key control processes deteriorate to a point where the control is no longer effective.</p>	<p>Procedures should be put in place to ensure controls are adequately reviewed and monitored by management to ensure their efficacy is maintained.</p>	<p>Complete</p> <p>We confirmed that processes are now in place to detail management review of the controls in place.</p>
7	<p>Training and development</p> <p>Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. During 2018/19 28% of Committee members and 13% Board members did not attend two or more training sessions.</p> <p>Risk</p> <p>Members do not have or maintain the expertise required to monitor and scrutinise Pension Fund performance effectively.</p>	<p>Pensions Committee and Pension Board members should ensure that they keep their pensions knowledge up to date and take advantage of the training and development opportunities offered.</p>	<p>Complete</p> <p>We confirmed that for 2019/20 all members of the Pensions Committee and Pensions Board met their training requirements. This will be monitored each year.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		Results and conclusions
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing on prepayments and accruals.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>From controls and substantive testing carried out in year, there was no evidence of management override of controls.</p> <p>Conclusion: Satisfactory</p>
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>The Code of Audit Practice and the Financial Reporting Council's Practice Note 10 (revised) expand the ISA 240 risk of fraud over income (see paragraph 5 below). As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>Evaluation of the effectiveness of systems for expenditure recognition and recording</p> <p>Review of custodian arrangements and completion of 'review of work by service auditors' in accordance with ISA 402 for the custodian.</p> <p>Analytical procedures on expenditure streams.</p> <p>Substantive testing of expenditure.</p>	<p>Our work did not identify any issues.</p> <p>Conclusion: Satisfactory</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Estimations, Judgements and Classifications</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation. Investments include level 3</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500, for the actuary.</p>	<p>From our 'review of the work of an expert' and our substantive testing we did not identify any issues in relation to this risk.</p> <p>An 'Emphasis of Matter' paragraph is included in the</p>

Audit risk	Assurance procedure	Results and conclusions
<p>investments such as unquoted equities, where valuations involve the application of considerable judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. This subjectivity entails a risk of misstatement in the financial statements.</p>	<p>Confirmation of valuations to valuation reports and/ or other supporting documentation.</p>	<p>independent auditor's report to draw attention to the impact of Covid-19 on property investment valuations. The audit opinion is not modified in respect of this matter.</p> <p>Conclusion: Satisfactory</p>

Appendix 3

Summary of national performance reports 2019/2020



**2019/20
Reports**

		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

Scottish Borders Council Pension Fund

2019/20 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

FINAL ANNUAL REPORT AND ACCOUNTS 2019/20

Report by Executive Director Finance and Regulatory

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

24 September 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report provided the Joint Committee and Board with an opportunity to scrutinize and approve the final Annual Report and Accounts for the Pension Fund for 2019/20 prior to their submission to Scottish Borders Council for signature.**
- 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 final Annual Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 Audit Scotland has completed their audit and have provided an unqualified independent audit opinion.
- 1.4 Audit Scotland identified two new recommendations and 3 recommendations from 2018/19 audit requiring action and these have been accepted by management and will be enacted within the agreed timescales.
- 1.5 This report is presented to enable members of both the Pension Fund Committee and the Pension Fund Board to consider the final Annual Report and Accounts for 2019/20(the Annual Report) prior to Scottish Borders Council for signature.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee agree to approve the Annual Report and Accounts for 2019/20 for Officer signature and Council approval.**

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 final Annual Report and Accounts for 2019/20 (the Annual Report) is attached at **Appendix 1**. The Annual Report will also be presented to Audit and Scrutiny Committee on the 28 September 2020 for noting.
- 4.2 The draft Annual Report was made available for public inspection for a 3-week period commencing 30 June 2020 and has been subject to a full external audit by Audit Scotland.
- 4.3 Audit Scotland has completed their audit and have provided an unqualified independent audit opinion.
- 4.4 The Scottish Borders Council's Pension Fund Annual Audit Report highlighted two new recommendations and 3 recommendations from 2018/19 audit. The areas in question are shown in Appendix 1 "Action Plan 2019/20" of the External Auditor's Annual Pension Fund Audit Report. The areas identified are:

2019/20 Recommendations

- Management should perform monthly pensioner validation using ATMOS reports and any matches investigated in a timely manner.
- Management should perform regular validation of overseas pensioners to ensure existence of overseas pensioners.
-

2018/19 Recommendations

- Management should perform monthly reconciliations are being performed across payroll to ensure all balance across payroll are investigated and adjusted when necessary.
- The pensions paid figure should be reconciled month on month and variances to the ledger investigated. Management should perform monthly reconciliations between the pensions paid figure and the ledger.
- Resource requirement of the Pension Fund should be assessed within both departments and addressed to ensure administration of the Fund is efficient and effective.

These recommendations have been accepted by Management and will be enacted within the agreed timescales.

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 to the Scheme of Administration or Delegation 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 22 June 2020

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.

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

Scottish Borders Council
Pension Fund

annual report and accounts

for the year to 31 March 2020



CONTENTS

	Page
Section 1	
Introduction	
Chairman's Report	4
Section 2	
Management Commentary	
Management Commentary Summary	6
Key Trends	9
Governance	
Scheme Administration	10
Scheme Governance	10
Risk Management	12
Training Policy & Practice Statements	13
Annual Governance Statement	14
Annual Governance Compliance Statement	19
Administration	
Administration Strategy	24
Administration Performance	24
Fund Membership	27
Communications Policy and Performance	29
Funding	
Funding Strategy Statement	31
Actuarial Statement	32
Investment	

	Statement of Investment Principles	34
	Investment Strategy	35
	Investment Performance	39
	Responsible Investment	41
Section 3	Financial Statements	
	Statement of Responsibilities	45
	Fund Account	47
	Net Asset Statement	48
	Notes to the Accounts	49
Section 4	Independent Auditor's Report	81
Contacts		84

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 been felt by the Fund.

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 service 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.



Chairman, Pension Fund Committee
Scottish Borders Council

SECTION 2

MANAGEMENT COMMENTARY

MANAGEMENT COMMENTARY SUMMARY

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 are provided by Scottish Borders Council Pension Fund Board. All key policies and strategies are located on the Fund's 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 is 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

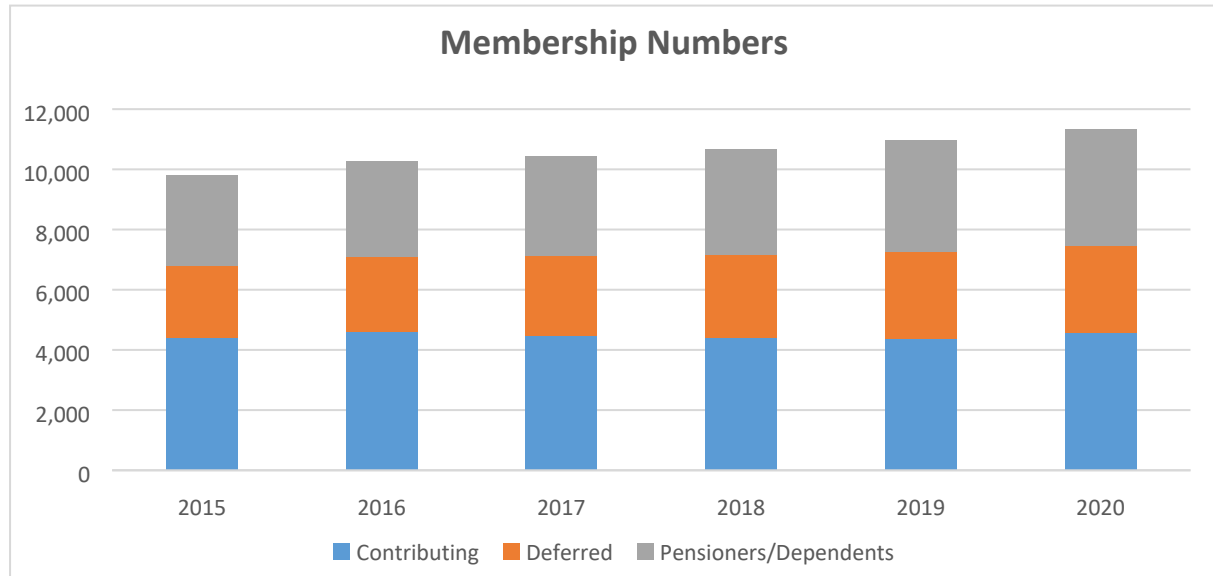
ADMINISTRATION AND MEMBERSHIP

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 is 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 £19.8m. 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 in the new withdrawals has been 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 Fund’s 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 FAQs information on 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 Fund’s investment 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.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2020

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.

David Parker
Chair
Pension Fund Committee

Rob Dickson
Exec Director Corporate
Improvement & Economy
Scottish Borders Council

David Robertson CPFA
Exec Director Finance &
Regulatory
Scottish Borders Council

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 Net 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 Net Value	541,778	653,207	685,681	731,048	712,319
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)	(363)
Oversight & Governance costs	(217)	(241)	(233)	(289)	(263)
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)

SCHEME ADMINISTRATION

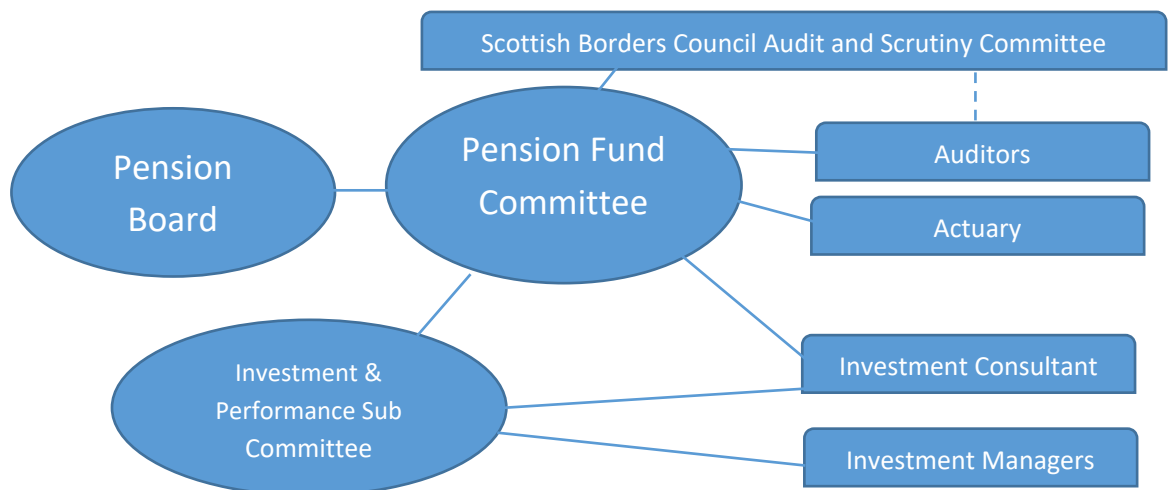
The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority).

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 control.

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 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 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 reported on a quarterly cycle.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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 (15-25)

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

ANNUAL GOVERNANCE 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 Pension 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, details of which are set out in the Governance Compliance Statement 2019-20 (pages 14 - 24).

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 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 2020 valuation.

Impact of COVID-19

The governance arrangements set out in this statement operated for the majority of the year until the impact of the global COVID-19 pandemic led to changes in the responsibilities, decision making structure and working arrangements in March 2020.

On 26th March 2020 Scottish Borders Council held a virtual meeting to agree temporary decision making arrangements to minimise social contact during the pandemic. It was agreed all formal Council and Committee meetings be cancelled unless required for statutory reasons and additional powers delegated to the Chief Executive in consultation with Officers and Members.

Business continuity plans were implemented with staff mainly working at home with full access to systems and files. During the pandemic period all services have been fully maintained and all payments made in a timely manner. With respect to Investments, the full effect of the pandemic on investments are not yet fully known. Officers are working with fund managers to ensure risks are identified and mitigations measures are in place. A full review will be undertaken and future business continuity plans updated to reflect findings.

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 (page 19).

Councillor David Parker
Chairman

Pension Fund Committee

Rob Dickson
Executive Director Corporate
Improvement & Economy
Scottish Borders Council

5 November 2020

ANNUAL GOVERNANCE COMPLIANCE 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>

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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.
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 committees meet at least quarterly	Yes	The joint meetings of the Pension Fund Committee and Pension Board are quarterly.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

Principle		Full Compliance	Comments
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.

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 administering 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 Regulator's Codes of Practice.

PERFORMANCE

The Pension Administration Strategy sets out the statutory responsibilities of Scottish Borders Council as the administering 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 over

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.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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%
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%

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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	-

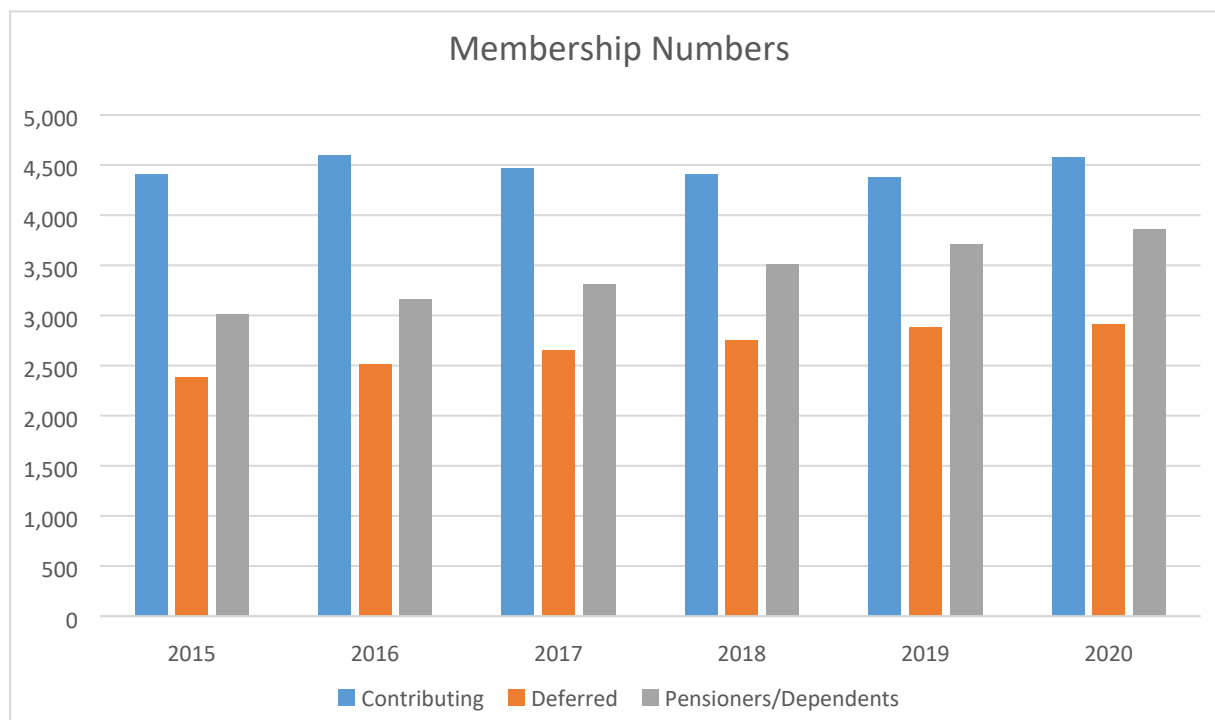
MEMBERSHIP

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.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2020

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:



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
Admitted Bodies with Contributing Members				
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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

CGI (TUPEE Staff only)	31	6	8	45
South of Scotland Enterprise	9	-	-	9
	263	165	160	588
Admitted Bodies with No Active Contributing Members:				
Gala Youth Project	-	2	-	2
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	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.

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 Fund's 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.

	Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	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%

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2020

Note 19 to the Statement of Accounts on page 74, 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 2020

Note 20 to the Statement of Accounts on page 75, 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 Fund website: [Pension Fund](#)

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

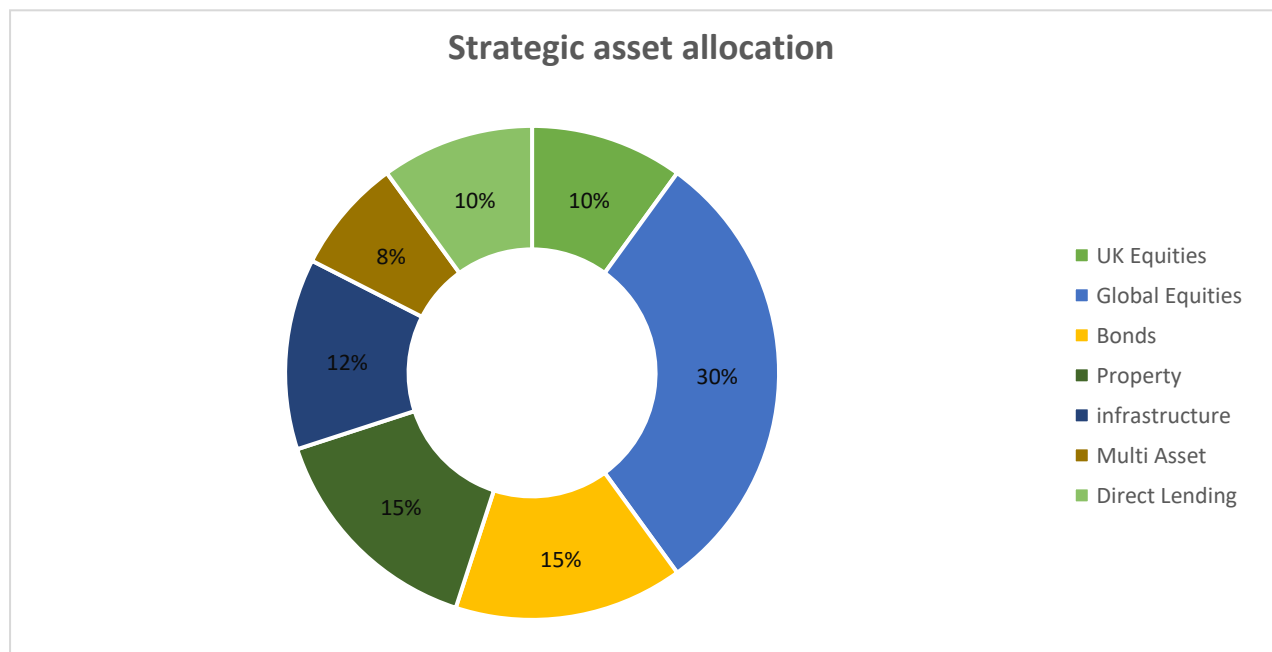
The Fund's investment objective is to support the Funding Strategy by adopting an Investment strategy and structure, which incorporates an appropriate balance between risk and return.

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 over 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:

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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.

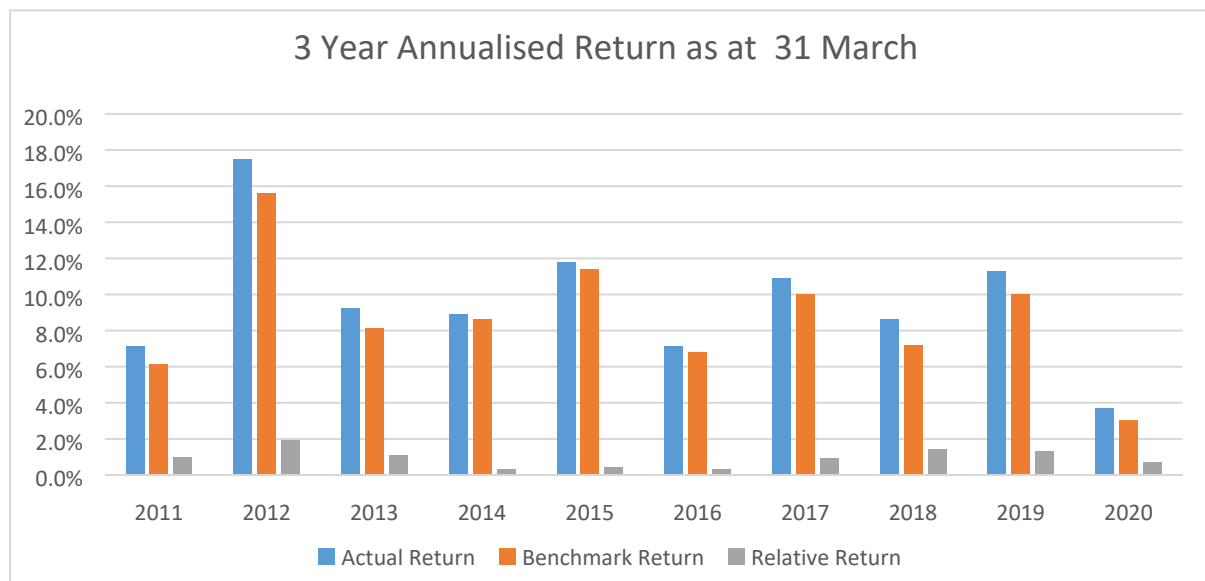
Real assets such as long lease property and infrastructure had a positive if slow performance in Q2 2019 with many deals delayed due to uncertainty around BREXIT. The following two quarters followed a similar pattern with positive returns. Q1 2020 saw a small reduction in valuations due to COVID-19 with 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, 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, Isio (previously 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.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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 3

FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITIES

COUNCILS 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 RESPONSIBILITIES

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 and 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 Parker
Chairman Pension Fund Committee
Scottish Borders Council

David Robertson
Executive Director Finance and Regulatory
Scottish Borders Council

5th November 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)	14
(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).

The unaudited accounts were issued on 30 June 2020 and the audited accounts were authorised for issue on 5 November

David Robertson CPFA
Executive Director Finance and Regulatory

5th November 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 are 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 gives a summary of the scheme benefits:

Membership up to 31 March 2009		Membership from 1 April 2009 to 31 March 2015		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 2019/20 financial year and its position as at the 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* (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.

The accounts have been prepared on a going concern basis.

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 close of business on 31 March.

- 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 close of business on 31 March.
- 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 62) 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 International Accounting Standards (IAS) 19 and relevant actuarial standards. As permitted under IAS 26, 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 20, page 75).

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. AVCs are paid to the AVC provider by employees 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.

AVCs 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 POLICIES

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 74. 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 AND 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 75).	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	<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

	assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	<ul style="list-style-type: none"> - A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £8.1m - A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1.7m, and - A 0.25% increase in assumed life expectancy would increase the liability by £3.9m <p style="text-align: right;"><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 a degree of estimation involved in the valuations.	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. Based on historical data and current market trends actual valuation could be between £241.8m and £210.8m

COVID 19 – Property

Property investments for Blackrock and UBS portfolio valuations both include a “material valuation uncertainty clause”. The response to COVID-19 meant the property sector were faced with an unprecedented set of circumstances on which to base a judgement. As at the valuation date, managers considered that less weight could be given to previous market evidence for comparison purposes to inform opinions of value. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

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	3,779
879	Lump Sums death benefits	903
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 £'000		2019/20 £'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 £'000		2019/20 £'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 £'000		2019/20 £'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.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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	Purchases & Derivative Payments	Sales & Derivative Receipts	Change to Market value during year	Closing Market Value
	£'000	£'000	£'000	£'000	£'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.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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 2020	£'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	-

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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 2019/2020, 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		

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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- Investments page 39.

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 Fund's 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.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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

	Market Value 1 April 2019 £'000	Transfers into level 3 £'000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2020 £'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.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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	7.1%	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		

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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	(22,738)
398	Loans & receivables	153
	Financial Liabilities	-
78	Fair value through profit & Loss	-
(156)	Financial liabilities at amortised costs	(2)
45,423	Total	(22,587)

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 13. 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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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	13,258
Fixed Interest Securities		-
	7,198	13,258

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	13,258	132	(132)

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.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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	132,447
Overseas Equity Funds	98,778
Overseas Hedge Funds	92,085
Total	323,310

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 below. 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	261,047	9.34%	285,435	236,658
Total Currency *	323,310		354,197	292,422

* 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 addressed 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	11,021
Total		7,198	13,258

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 2020, 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 (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)	(573.3)
Smoothed Asset Value	490.5	653.9
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.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020**

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	2.3
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 (leavers)	499	198
Sundry Creditors	565	1,498
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 (2019 £0.263m) in respect of expenses incurred in administering the Fund. There are no additional

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

related party transactions that require to be disclosed. The Pension Fund balance due to 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 LIABILITIES

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 30 June 2020. Events taking place after this date are not reflected in the financial statements or notes.

SECTION 4

INDEPENDENT AUDITORS REPORT

Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Scottish Borders Council Pension Fund (the fund) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is four years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – Property Investment Portfolio Valuations

I draw attention to Note 5 'Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty' in the notes to the accounts, which describes the effects of a material uncertainty caused by Covid-19 on property investment portfolio valuations. My opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Executive Director Finance and Regulatory has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director Finance and Regulatory and Scottish Borders Council Pension Fund Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director Finance and Regulatory is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director Finance and Regulatory determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director Finance and Regulatory is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Scottish Borders Council Pension Fund Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Executive Director Finance and Regulatory is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

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

RISK REGISTER UPDATE

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

24 September 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 update of the progress of the actions taken by Management to mitigate these risks, a review of any new risks and highlights changes to any of the risks contained in the Risk Register.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A full risk review was undertaken on 15 May 2020 and the revised Risk Register was approved by the Joint Pension Fund Committee and Pension Fund Board on 22 June 2020.
- 1.4 Appendix 1 details the risks within the approved risk register which have been identified management actions and the progress of these actions to date.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:**
 - (a) Note the management actions progress as contained in Appendix 1;**
 - (b) Notes no new quantifiable risks have been identified since the last review; and**
 - (c) Agrees to an update on progress of management actions to be presented in December 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 was approved on 22 June 2020, setting out the aims and objectives of the Pension Fund. These aims and objectives 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 in order to ensure that the Risk Register's contents were still relevant and up to date. The outcome of the Workshop was then considered and approved at the Committee/Board meeting on 22 June 2020.
- 4.2 The progress of the individual management actions identified in the current risk register is detailed in Appendix 1.
- 4.3 No new risks have been identified during the period.

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

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk		
							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	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
1.9	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	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
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	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 forth coming 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

Pension Fund - Full Risk Register

Pension Fund - Full Risk Register							Controls		Current Risk		
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Current Controls	Control Assessment	Impact	Likelihood	Score
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	<p>Full actuarial valuation undertaken on Triennial basis;</p> <p>Bonds in place for Amey, and Council agreement in place for Live Borders and CGI ;</p> <p>Guarantee in place with SG for Visit Scotland;</p> <p>Contribution rates based on open/closed status of employer;</p> <p>Updated Admission Agreement and formal consideration of support at initial set up now implemented;</p> <p>Movement to closed scheme requires actuarial review, results then implemented.</p> <p>TREAT- Development of cessation policy.</p>	Effective	3	2	6
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	<p>Annual Employers Liaison group established to improve two-way communication;</p> <p>Borders College and 2 Admitted Bodies representatives on Pension Board;</p> <p>Active involvement of actuary in projects affecting membership structures;</p> <p>Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission.</p> <p>Annual Declaration to include changes of scheme membership for current and future year.</p> <p>TREAT; undertake review of admission agreements and guarantees</p>	Partial Effective	2	5	10
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	<p>Approved Training Policy;</p> <p>Training assessment informs the annual training plan;</p> <p>Training opportunities are made available to members of Board and Committee;</p> <p>Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees;</p> <p>Access to the Pension Regulator's website;</p> <p>Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board</p> <p>TREAT - annual monitoring and reporting undertaken</p>	Effective	3	3	9

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk		
							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	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
4.5	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	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
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	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	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

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk		
							Current Controls	Control Assessment	Impact	Likelihood	Score
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	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	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
Page 1 of 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	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
6.5	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	Monitoring of political position via Scheme Advisory Board TREAT - Actively engage with Scheme Advisory Board and consultants undertaking review	Partially Effective	3	4	12
7.3	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	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 ADMINISTRATION STRATEGY

Report by Service Director HR and Communications

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

24 September 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Pension Administration Strategy for the Scottish Borders Council Pension Fund.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme (Scotland) Regulations 2018 to have an up-to-date Pension Administration Strategy.
- 1.3 **Appendix 1** contains the revised Pension Administration Strategy which has a number of amendments made to the previously approved version, these are mainly in section 1 where the statutory regulations have been listed along with other relevant legislation and bodies where codes of practice are adhered to. Other changes are in the post titles for officers and updates to the list of Employers within the Fund.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Administration Strategy as set out in Appendix 1 is approved.**

3 BACKGROUND

- 3.1 Regulation 57 of the Local Government Pension Scheme (Scotland) Regulations 2018 advises that an administering authority should maintain its Pension Administration Strategy and keeps this under review following material changes in policies.

4 PENSIONS ADMINISTRATION STRATEGY

- 4.1 **Appendix 1** contains the updated Pensions Administration Strategy (PAS).
- 4.2 There have been no changes made to the performance measures and targets within the PAS; these will be reviewed in line with the implementation of i-Connect and Members Self Service.
- 4.3 The changes made within the PAS are to ensure all regulations and codes of practice followed by the Administration team are clearly outlined, Admitted Body status and change to officer titles have been reflected. The updates were made in the following sections: -
- Section 1.1 – statutory regulations, other relevant legislation and codes of practice have been listed in full
 - Section 3.3 – updated position title to reflect the Corporate restructure within Scottish Borders Council
 - Sections 4.2 and 4.4 – grammatical correction
 - Section 5.2 – addition of the Pension Fund Website address
 - Appendix A – amendment to the status of SB Cares LLP and SB Supports LLP, along with the inclusion of South of Scotland Enterprise

IMPLICATIONS

5

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

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

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

This page is intentionally left blank

SCOTTISH BORDERS COUNCIL PENSION FUND

PENSION ADMINISTRATION STRATEGY

**HR Shared Services
Chief Executives Department
Version 2020 1.8**

**Approved: Joint Pension Fund Committee and Pension Board [24 September 2020]
(DRAFT)**

1. Introduction

1.1 Scottish Borders Council administers the Local Government Pension Scheme (LGPS) on behalf of Employers participating in the Scheme through Scottish Borders Council Pension Fund, see Appendix A. The administration of the Scheme is governed by statutory regulations:

- The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended);
- The Local Government Pension Scheme (Transitional Protections & Savings) (Scotland) Regulations 2014 (as amended);
- The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 (as amended).

In discharging their roles and responsibilities under the above Regulations, the Fund and employers are also required to manage the Scheme in accordance with the Pension Regulator's Codes of Practice and to comply with any relevant legislation, such as:

- The Pensions Act 1995 and consequential amendments
- The Occupational and Personal Pensions Schemes (Disclosure of Information) Regulations 2013
- The Equality Act 2010
- The Freedom of information Act 2000
- The Finance Act 2004
- The Public Service Pensions Act 2013
- The Pension Scheme Act 2015;

and take appropriate cognisance of any regulatory guidance or Code of Practice and issued by:

- The Pensions Regulator
- Scottish Public Pensions Agency
- Scottish Government
- HMRC

1.2 Scottish Borders Council, as an Administering Authority, is committed to providing a high quality pension service to both members and Employers and ensuring members receive their correct pension benefit entitlement. These aims are best achieved where the Fund and Employers work in partnership and are clear about their respective roles and responsibilities. The Fund's role includes investing contributions from members and Employers, maintaining member records and calculating members benefits based on information supplied by Employers. The quality of service provided to members is therefore dependent on both parties meeting high standards of accuracy and timeliness of information supplied.

1.3 This document sets out the roles and responsibilities of both the Fund and Employer. It also specifies the level of services the parties will provide to each other and the performance measures used to evaluate them.

2. Pension Administration Strategy Statement

2.1 The strategy statement has been produced in consultation with Employers and was approved by the Joint Pension Fund Committee and Pension Board on [24 September 2020]. The strategy will be kept under review and revised where appropriate. Changes will

be subject to consultation with Employers. The strategy will be issued to all participating Employers.

2.2 References to the Fund should be regarded as meaning Scottish Borders Council as Administering Authority of the Local Government Pension Scheme.

2.3 In agreeing to this strategy, all parties commit to the following principals:

- Achieving a high quality pension service to employees
- Continually developing and improving efficient working arrangements
- Striving to exceed the Fund's service standards
- Reporting annually on performance
- Keeping the Pension Administration Strategy under review.

3. Administration and Management of the Fund

3.1 This is shared over two Services within the Chief Executives Department.

3.2 Administration

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

3.3 Management

The Council's Executive Director for Finance and Regulatory Service is the Officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.

He is responsible for:

- the financial accounting of the Fund,
- the preparation of the Pension Fund Annual Report, and
- 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.

The day-to-day management of the investment activities of the Fund is managed by the Pensions/Investments Section within the Finance Service.

4. Roles and Responsibilities

4.1 The duties, responsibilities and discretions of Employer's are listed in Appendix B, and the Fund's duties, responsibilities and discretions are listed in Appendix C.

4.2 Responsibility for the review of the Pension Administration Strategy will fall to HR Shared Services on behalf of the Fund. However, all Employers will be consulted on changes to service standards prior to seeking approval at the Joint Pension Fund Committee and Pension Board.

4.3 The Joint Pension Fund Committee and Pension Board oversee the management of the Scottish Borders Council Pension Fund (the Fund). The Scheduled and Active Admitted Bodies are represented as members of the Pension Board.

- 4.4 To improve communication with all Scheduled and Active Admitted Bodies the Fund have Employer Liaison Meeting, with meetings held once a year. The meetings will be held in February to coincide with preparations for the year end and provide the opportunity for information to be conveyed with regard to any potential changes for the coming year.

5. Service Standards

5.1 Service standards expected from the Employer

Required information about members will generally be provided on the Fund's forms, authorised by an appropriate signatory. The following are the agreed standards at which the information detailed below will be provided:

- When a new employee joins the Scheme, the Employer will notify the Fund **within 20 working days** of commencing pension scheme deductions.
- The Employer will notify any member's change in pensionable circumstances **within 20 working days** of the change.
- Where a member is leaving the scheme with a right to immediate payment of retirement benefits, the Employer will, provide the Fund with all of the necessary information and certificates required **at least 20 working days before** the member's last day of service.
- Where a member leaves the Scheme and does not have a right to immediate payment of retirement benefits, the Employer will provide the Fund with all the necessary information to enable them to process the member as a leaver as soon as possible after notification by the member and **no later than 20 working days after** the member's last day of service.
- When a member dies in service the Employer will provide the Fund with all of the necessary information and certificates to enable them to make payment of any death grant and dependants' benefits due as soon as possible but no later than **10 working days** of the death of the member.
- The Employer will respond to queries raised by the Fund, with the exception of those resulting from the annual year end routines, **within 10 working days** of receipt.
- The Employer will pay employee contributions to the Fund, along with the Employer contributions certified in the latest actuarial valuation, **by the 19th of the next month** following deduction. Interest will be charged for late payment of contributions in accordance with regulations.
- The Employer will provide the Fund with year-end information to 31st March in an approved format by the 30th April each year, including a statement reconciling the amounts paid during the year with the totals on the year end return. Any queries arising from the year-end information will be answered **within 20 working days** of receipt.
- The Employer will notify the Fund of any changes in the personnel details provided in Appendix D.

5.2 Service standards Employers can expect from the Fund

The Fund will endeavour to provide the information below within the agreed timescales shown. A reduced timescale may be agreed in exceptional circumstances at an Employer's request.

- Where all required information is provided, the Fund will provide the Employer with ad-hoc estimates of benefits **within 10 working days** of the receipt of the request. Where more than 20 individual estimates are required, the Employer must consult with the Fund to reach an agreed timescale. Multiple requests relating to an individual member may be restricted.
- The Fund will respond to a pension-related query raised by the Employer **within 10 working days** of receipt.
- Benefit statements, leaflets and other correspondence will generally be issued directly to members' home addresses, where available. The Fund will advise Employers of the general content and planned issue date of such material in advance.
- The Fund will issue benefit statements by **end of August** on an annual basis.
- Employers have responsibility for ensuring the accurate provision of information to their members. The Fund is not responsible for checking the accuracy of any information provided by the Employer. However, the Fund will inform the Employer of any discrepancies between information provided by the Employer and information already held.
- As the body administering the scheme on behalf of the Employer, the Fund will consult with the Employer on major issues affecting their participation in the LGPS and keep it up to date with relevant information through:
 - ❖ Website – www.scottishborderscouncilpensionfund.org
 - ❖ Employer bulletins
 - ❖ Employer events
 - ❖ Consultative panel meetings
- The Fund will provide training, guidance and support to staff who have pension related duties as required by the Employer.

6. Performance measurement and reporting

- 6.1 The Fund will monitor, measure and report on both the Fund's and Employers' compliance with the agreed service standards and will share that report annually with Employers. These and other performance measures to be reported are detailed in Appendix E.
- 6.2 Where information collected for reporting purposes reveals issues with meeting the standards, the Fund will consult and work with the relevant Employers to improve the level of compliance and performance by providing support, guidance or training as considered necessary.
- 6.3 The Fund will carry out its duties and responsibilities to members in accordance with its service standards. It will also monitor, measure and report on its performance against those standards and its performance targets.

7. Costs

- 7.1 The costs of administration, including actuarial fees for routine work, are charged directly to the Fund. These costs are taken into account in assessing Employers' contribution rates.
- 7.2 Where additional services (actuarial or other) are required by, or result from the actions of the Employer and costs are incurred by the Fund, the Employer will be liable for the costs involved. Where appropriate, an estimate of these costs will be provided and the Employer's agreement obtained before proceeding to instruct the service provider.

8. Penalties

- 8.1 It is hoped that through commitment to the principles of this statement (see 2.3 and 5.2), any non-compliance issues arising would be addressed promptly and there would be no need to resort to any punitive action. However, for completeness the following actions are possible:
 - In the event of a failure to meet its requirements, the Fund will be penalised in accordance with The Occupational Pensions Schemes (Disclosure of Information) Regulations.
 - The Fund may appeal to Scottish Ministers against a decision, or failure to make a decision, under scheme regulations by an Employer.
 - Persistent failure to comply with contribution payment requirements will result in the Fund informing the Pensions Regulator, as required of Scheme Administrators by the Pensions Act 1995.
 - Where the Employer fails to comply with the scheme duties etc., including the failure to make payment of contributions due, the fund reserves the right to notify the member(s) involved and to notify all members employed by the Employer in the event of serious or persistent failure.
 - If as a result of an Employer's poor performance, additional and disproportionate resources are deployed by the Fund, the cost of such additional resource may be re-charged to the Employer in accordance with the powers available under scheme regulations. Written notice will be provided of the reasons for re-charge, the basis of calculation of the amount, and the relevant part of this strategy which, in the Fund's opinion, has been contravened.
 - Where any orders or instruction issued by The Pensions Regulator or Pensions Ombudsmen requires financial compensation or a fine to be paid from the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the Employer, the sum concerned will be recharged to the Employer.

Appendix A – Scheduled and Admitted Bodies

Scheduled Bodies

- Borders College
- Scottish Borders Council
- Visit Scotland

Admitted Bodies

Active Admitted Bodies

- Amey Community Limited
- BC Consultants
- Live Borders (formerly Borders Sport and Leisure Trust)
- Jedburgh Leisure Facilities Trust
- Scottish Borders Housing Association
- CGI
- South of Scotland Enterprise

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
- Stable Life (formerly GYP)
- Lothian and Borders Community Justice Authority
- SB Cares LLP
- SB Supports LLP

Appendix B – The Role and Responsibilities of the Employer

1. Main duties under scheme regulations

- To decide those employees eligible to become members of the Scheme. If eligible, a new employee must be treated as a member of the Scheme unless he/she elects otherwise.
- To supply timely and accurate information to the Fund regarding new members, leavers and material changes in employment required for pension administration purposes.
- To determine whether members are employed in a full time, part time or variable time capacity. For part time, to determine the proportion of comparable full time hours.
- To determine an employee's pay (or fees) for the purposes of calculating pension contributions and to determine final pay for the purposes of calculating benefits due from the Scheme.
- To determine an employee's annual contribution rate on the basis of the person's pensionable pay having regard to guidance issued by the Scottish Ministers. To collect, pay over and account for the deduction of the correct rate of pension contributions payable by both the employee and the Employer.
- To notify, in writing, every person whose rights or liabilities are affected by a 'first instance decision' made by the Employer under the 2018 Regulations (see Regulation 70 of the Local Government Pension Scheme (Scotland) Regulations).
- To appoint a person designated to receive appeals from employees on 'first instance decisions' under the 2018 Regulations
- To accompany any statement issued to an employee relating to any decision made about the scheme, with a notice drawing the employee's attention to their right of appeal under the LGPS. However, it should be noted that the Fund will normally issue, on behalf of the Employer, a Statutory notice detailing membership details, including such a notice when a member joins the Fund or where there is a change in a member's pension records.
- To notify the Fund of any employee's election to pay Additional Voluntary Contributions, to deduct from the member's pay the specified amount and to pay over those amounts to the specified AVC provider. To notify the Fund of any subsequent election to vary or cease paying AVC contributions and to ensure that final payments are made to the provider before a member's retirement.
- To notify the Fund of a material reduction in the member's pay, (or a restriction in the rate by which it may be increased), where the reduction or restriction arose otherwise than by virtue of the member's own volition.
- To use an independent Medical Officer qualified in Occupational Health Medicine, (who has been approved by the Fund), in determining ill-health retirement and provide the Fund with a relevant certificate where appropriate.
- To determine a member's entitlement to benefit on cessation of scheme membership, employment or on a member's application for early release of benefits or flexible retirement and provide early retirement request to the Fund as and when appropriate.

2. Responsibilities

In addition to the duties above, the Employer's responsibilities are summarised as follows:

- To provide prospective members with basic information about the Scheme using, where appropriate, material provided by the Fund.
- To maintain employment records for each scheme member, for the purpose of determining membership and entitlement to pension benefits.
- To ensure all relevant information is provided for new members, leavers and changes to pay and service records for pension purposes. Data provided should comply with Data Protection legislation and secure transfer methods must be adopted.
- To provide additional information as required for actuarial valuation, year end processing, data-matching or communication purposes. The specification for this will be provided by the Fund and may, after consultation, be modified from time to time.
- To pay monthly contributions due to the Fund, using agreed payment method.
- To ensure those not joining the scheme are fully aware of the benefits given up and that equalities principles are met.
- To make payment to the Fund, by lump sum and within prescribed time limits, any amounts arising as a result of the Employer's decision to increase total membership and/or increase annual pension under the 2018 Regulations.
- To decide whether to award additional compensatory years under the Discretionary Regulations. At the request of the Employer, the Fund will calculate and pay the benefits arising as a result of the Employer awarding additional compensatory years along with the main scheme benefits, and the Employer will reimburse the Fund for all such amounts paid.
- To advise members awarded additional compensatory years that the payment of the award will be subject to restriction should they take up further employment with an Employer participating in the LGPS.
- To pay the Fund, by lump sum payment and within prescribed timescales, any strain costs arising from a decision made by the Employer to award early payment of benefits.
- To ensure the Fund is informed about, and Government guidance is followed in respect of, any transfer of members in respect of an outsourcing of service arrangement, and any subsequent changes to that arrangement which would impact on those members.
- To inform the Fund of any planned changes to their pension provision for employees, including whether the scheme is open to new employees, bulk transfers of employment or any redundancy exercises as soon as possible.
- To provide details of officers or representatives who are to receive Employer communications issued by the Fund and keep these up to date as necessary.
- To provide details of officers or representatives who are authorised to sign Fund forms and to ensure all forms submitted to the Fund have been signed by an authorised signatory.

3. Discretions

The Employer is obliged to make, and keep under review, policies on the discretions available under the regulations. These policies must be contained and published in a policy statement. A copy of that statement, and any subsequent amendment to it, must be provided to the Fund. The current statement must also be made available to any scheme member upon request.

Guidance on establishing policies required is available from the Fund on request.

Appendix C – The Role and Responsibilities of the Fund

1. Main duties under scheme regulations

- To maintain the Scottish Borders Council Pension Fund.
- To invest pension contributions received and account for and manage the Fund's assets.
- To set up and maintain a record for each member which contains all the necessary information for the production of an accurate benefit calculation.
- To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
- To notify each member of their decisions regarding the counting of service or additional pension.
- To calculate and pay the appropriate benefits, based on the member's record, and the termination and pay details provided by the Employer when an employee ceases employment.
- To calculate and process transfers of members pension rights inwards and outwards.
- To supply members with a Membership Certificate on commencing membership, or on an increase in membership following an inwards transfer of pension rights.
- To issue a Certificate of Protection of Pension Benefit if requested to do so by an Employer within 12 months of a material reduction in a member's pay, (or a restriction in the rate by which it may be increased), where the reduction or restriction arose otherwise than by virtue of the member's own volition. Where such a certificate is issued, to keep a record of the member's pay for the period commencing 3 years before the effective date of the certificate and ending 10 years after the effective date of the certificate.
- To supply survivor beneficiaries with notification of their entitlements including the method of calculation.
- To appoint a suitable person for the purposes of the scheme's internal dispute resolution procedure.
- To increase pensions annually in accordance with the provisions of Pensions Increase Acts and Orders.
- To produce and issue annual pension forecasts to members.
- To arrange for the triennial actuarial valuation of the Fund and send copies of the resulting report to Employers by the first anniversary of the valuation date.

2. Responsibilities

In addition, the responsibilities of the Fund in administering the Scheme are as follows:

- To appoint an actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.
- To appoint an Additional Voluntary Contributions provider.

- To comply with any orders or instructions issued by The Pensions Regulator or the Pensions Ombudsman. Where the order or instruction requires financial compensation or a fine to be paid from the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the Employer, the sum concerned shall be recharged to the Employer (see 7.1 above).
- To issue forms, newsletters, booklets and such other materials as are necessary in the administration of the Scheme, for members and use by Employers. Ensuring that the requirements of the Occupational Pension Scheme (Disclosure of Information) Regulations 1996 are met.
- To provide accurate, timely data to the Fund actuary for the purposes of the triennial actuarial valuation of the Fund and for Employer accounting reports (e.g. FRS17/IAS19).
- Where appropriate, to pay benefits based on additional service awarded by an Employer in accordance with the provisions of the Discretionary Regulations.
- To provide assistance to Employers in regard to the pension implications of outsourcing services and to deal with any related bulk transfers of pension rights.
- To comply with HMRC reporting requirements regarding pension benefits.
- To ensure that steps are taken at all times to pay benefits to appropriate beneficiaries only and to reduce the possibility of fraud.
- To ensure compliance with Data Protection legislation.

3. Discretions

The Fund has published policies on discretions afforded by the scheme regulations and related regulations. The policy statement has been supplied to Employers and is available from the Fund's website. Changes to that statement may be published from time to time and revised versions provided to Employers.

Appendix D – Contact Details

Fund Staff Contacts

An up to date list of Fund staff is available from our website. Members of Scottish Borders Council's, HR Shared Services team administer the scheme for members of the Employer.

Contact Number: 01835 825052

E-mail Address: pensions@scotborders.gov.uk

Employer Staff Contacts

To help us ensure we communicate with the appropriate Employer representatives, the attached form (Appendix D1) should be completed confirming the individual's responsibility or interests and the type of communication they require. Additionally, you should indicate those who are designated as authorised signatory for pension forms.

Typical contact responsibility/interest and communications required, these may not apply to smaller employers with only one contact:

Responsibility/Interest

Regular	General contact for day to day enquiries
Payroll	Payroll related enquiries
HR	Human Resources/Personnel related enquiries
Auth Sign	Authorised signatory
Finance	Finance related enquiries
All	All of the above

Communications required:

Bulletin	Regular update on scheme
HR	Human Resources/Personnel related
Finance	Finance related
All	All of the above

Appendix D1 – Employer Contacts Form

Employer:

Effective Date:

Contact Name	
Job Title	
Telephone Number	
E-mail Address	
Responsibility/Interest	
Communication Required	
Specimen Signature for Authorised Signatory	

Contact Name	
Job Title	
Telephone Number	
E-mail Address	
Responsibility/Interest	
Communication Required	
Specimen Signature for Authorised Signatory	

Contact Name	
Job Title	
Telephone Number	
E-mail Address	
Responsibility/Interest	
Communication Required	
Specimen Signature for Authorised Signatory	

Contact Name	
Job Title	
Telephone Number	
E-mail Address	
Responsibility/Interest	
Communication Required	
Specimen Signature for Authorised Signatory	

Contact Name	
Job Title	
Telephone Number	
E-mail Address	
Responsibility/Interest	
Communication Required	
Specimen Signature for Authorised Signatory	

Appendix E – Performance Measures

EMPLOYER PERFORMANCE MEASURES

The following will be the standard followed for reporting performance measures on an annual basis.

Service Standards

Standard – target completion 90%	Volume	%age Met	Average Time
New starts notification – within 20 working days			
Changes notified – within 20 working days			
Retirement info – at least 20 working days before			
Early leaver notification – within 20 working days			
Death in service notification – within 10 working days			
Query responses – within 10 working days			
Year-end queries – within 20 working days			

Contribution payments

Latest 12 months	Target Date	Date received
April		
May		
June		
July		
August		
September		
October		
November		
December		
January		
February		
March		

ADMINISTERING AUTHORITY PERFORMANCE MEASURES

Service Standards

Standard	Volume	%age Met
Transfer In Estimates supplied – within 20 working days		
Transfer Out Estimates supplied – within 20 working days		
Other Estimates supplied – within 10 working days		
Query responses – within 10 working days		

Other measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	
Benefit Statements Issued	31 August	

Key Administration Tasks – latest period

Task	Total received	Target	% Completed in target
New entrants			
Early leavers			
Retirements			
Deaths in service			
Changes			
Estimates			

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2012 1.0	Creation of Pension Administration Strategy	27 April 2012	Ian Angus
2012 1.1	Changes following review by Anthea Green, Team Leader, HRSS	30 April 2012	Ian Angus
2012 1.2	Changes based on comments from David Robertson, Chief Financial Officer	1 May 2012	Ian Angus
2012 1.3	Changes based on comments from Lynn Mirley, Treasury & Capital Manager	10 May 2012	Ian Angus
2012 1.4	Changes based on comments from Ian Wilkie, Head of Legal & Democratic Services	31 May 2012	Ian Angus
2012 1.5	Changes following Pension Fund Sub-Committee 13 June 2012	5 July 2012	Ian Angus
2015 1.6	Amendments for 2014 regulations and Pension Board in place from 1 April 2015	23 July 2015	Ian Angus
2018 1.7	Amendments for 2018 regulations and name changes for Services	22 August 2018	Anthea Green
2020 1.8	Update Admitted Bodies, Regulations listed, Fund Website	2 September 2020	Ian Angus

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

Contact us at Ian Angus, HR Shared Services Manager, Old School Building, Newtown St Boswells, TD6 0SA
01835 826696, iangus@scotborders.gov.uk

This page is intentionally left blank

COMMUNICATION POLICY REVIEW

Report by Service Director HR and Communications

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

24 September 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report provides a review on the Communication Policy and provides an update on the review of forms and communication, including annual benefit statements. In line with the Pension Fund business plan the Policy should be reviewed on an annual basis. This report discharges that requirement.**

- 1.2 **Appendix 1** contains the revised Communication policy which has a number of amendments made to the previously approved version, these are mainly in section 1 where other regulations and codes of practice that are adhered to have been updated. Other changes are in regard to the availability of online payslip access and the use of Microsoft Teams to host virtual meetings.

- 1.3 The Pension Fund website has proven to be a useful resource and has been visited on a regular basis. This continues to be updated to reflect the current Regulations and any relevant documents or news stories are published accordingly.

- 1.4 The Pensions Administration team have carried out a review of the supporting information provided along with the Annual Benefit Statements for this year. Work is ongoing to review processes and associated Forms.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee approve:**
 - (a) **The Communication Strategy as set out in Appendix 1;**
 - (b) **Notes the website performance over the last 14 months;**
 - (c) **Notes that work has commenced on the review of Forms and the Annual Benefit statement documentation has been reviewed prior to issue**

3 BACKGROUND

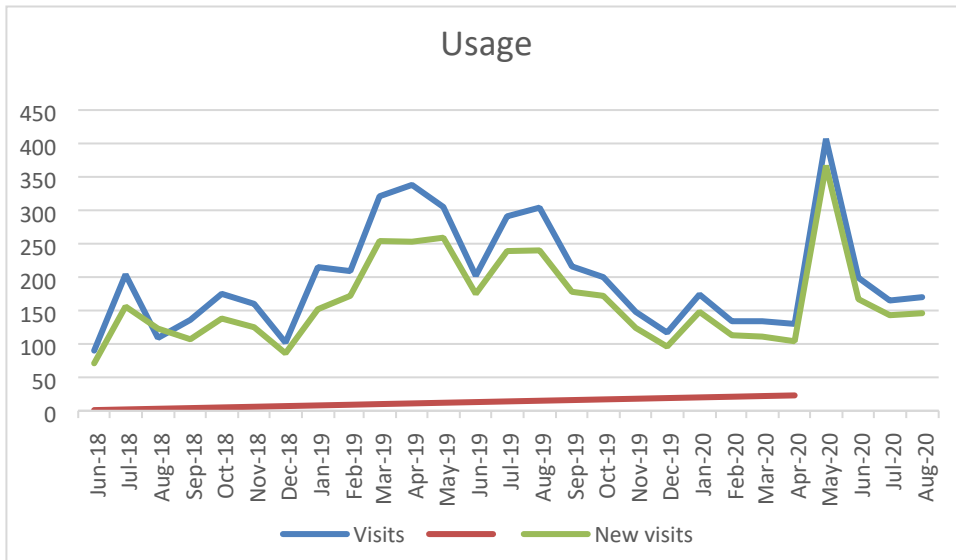
- 3.1 Regulation 59 of the Local Government Pension Scheme (Scotland) Regulations 2018 advises that an administering authority should have a Communications Policy. This should then be published by the administering authority.
- 3.2 In accordance with the Regulations the statement must be revised and published by the administering authority following a material change in their policy on any of the matters listed within Regulation 59.
- 3.3 The Pension Fund Business Plan also outlined a requirement to review the Communication Policy and Action plan, including all forms and communication material, on an annual basis. Making sure that this is in line with best practice and technological advancements.

4 PENSIONS COMMUNICATION POLICY REVIEW

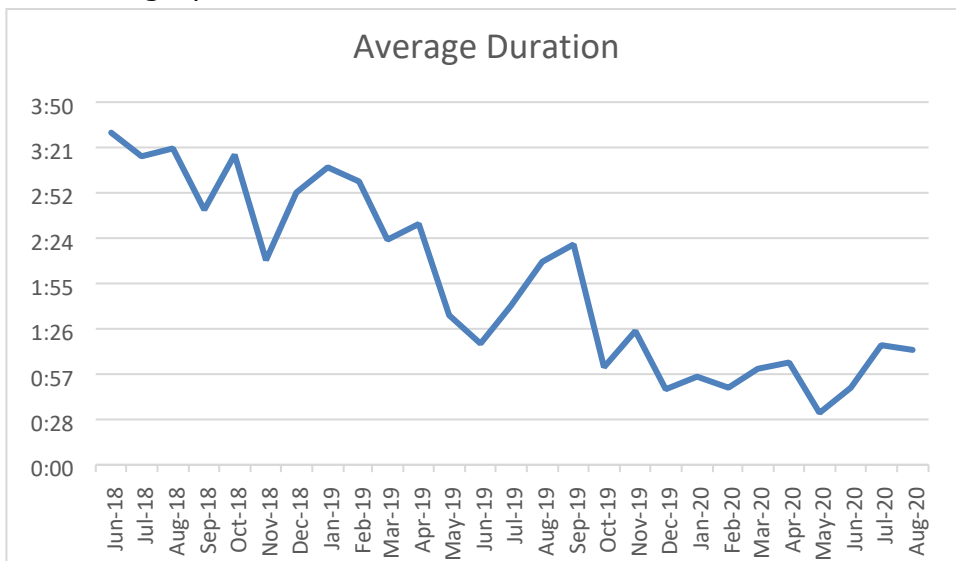
- 4.1 **Appendix 1** contains the updated Communication Policy.
- 4.2 The changes made within the Policy are to ensure that this is relative of the relevant Legislation and Codes of Practices that are adhered to and the technologies available have been reflected. The updates were made in the following sections: -
 - Section 1 - the addition of Other Legislation and Code of Practice issued by the Pensions Regulator
 - Section 5 – the ability to hold meetings on a virtual basis through the use of Microsoft Teams with no detrimental impact to the service provided to the member
 - Section 6 – the availability for pensioners to sign up to Business World Self Service where they are able to view online payslips on a monthly basis
- 4.3 During 2018 the Pension Fund implemented a website (www.scottishborderscouncilpensionfund.org) was deployed. The website is managed and maintained by Hymans Robertson, with Officers able to upload documents and news stories as required. Information regarding the impact of COVID-19 on the ways of working and communication methods were posted on the website.
- 4.4 Officers have obtained statistical information from the Website from June 2018 through until August 2020. The following graphic details the number of visits that there have been to the Fund Website.



The following graphic shows the usage of the website and if the visitor was a first time visitor, with the gap being repeat visitors.



The final graphic shows the duration of each visit.



- 4.5 Prior to the issuing of the Annual Benefit Statements the content was reviewed and updated to take account of current Regulations.
- 4.6 Officers within HR Shared Services are reviewing processes in light of the recent move to home working to make sure that they remain fit for purpose. Due to COVID-19 there was a delay in kicking off the projects for I-connect and Members Self Service, on completion of these a further review of the communication policy will be carried out in line with the business plan.

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 admission of any new employer organisation have been identified and form part of the considerations for admission to the Fund.

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 which could 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

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:

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

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

This page is intentionally left blank

SCOTTISH BORDERS COUNCIL PENSION FUND COMMUNICATION POLICY

**HR Shared Services
Human Resources
Version 2020 1.1 DRAFT
Approved: Joint Pension Fund Committee and Pension Board [24 September 2020]**

1. Introduction

Scottish Borders Council administers the Local Government Pension Scheme (LGPS) on behalf of Employers participating in the Scheme through Scottish Borders Council Pension Fund for local government employers and associated bodies within the Scottish Borders.

Regulation 59 of the Local Government Pension Scheme (Scotland) Regulations 2018 requires the following information to be published: -

- (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with –
 - a) Members;
 - b) Representatives of members;
 - c) Prospective members; and
 - d) Scheme employers.
- (2) In particular the statement must set out its policy on –
 - a) The provision of information and publicity about the Scheme to members, representative of members and Scheme employers;
 - b) The format, frequency and method of distributing such information or publicity; and
 - c) The promotion of the Scheme to prospective members and their employers.
- (3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph 2.

Other Legislation

The Fund must also satisfy the requirements of the Occupation Pension Schemes (Disclosure of Information) Regulations and other legislation such as the Public Sector Pensions Act 2013 which introduced a framework for the governance and administration of public sector pension schemes and regulatory oversight provided by The Pensions Regulator.

A Code of Practice has been issued by the Pensions Regulator that covers the type of information that pension scheme are required to disclose. The Pension Regulator's objectives are to protect the benefits of members, promote and improve understanding of good pension administration and maximise compliance. The Regulator's Code of Practice 14 covers the type of information that pension schemes are required to disclose about the scheme and the benefits provided to members.

2. Vision

Our vision is to provide access to all information required for anyone who has an interest in the Scottish Borders Council Pension Fund, we endeavour to make pension issues understandable to all and promote membership of the Fund.

3. Aims and Objectives

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

4. Stakeholders

Our stakeholders are: -

- Scheme members – Active, Deferred and Pensioners
- Scheme employers
- Scottish Borders Council, the scheme manager
- The Pensions Committee of Scottish Borders Council
- The Pensions Board
- Pensions administration and investment teams
- LGPS (Scotland) Scheme Advisory Board
- Scottish Public Pensions Agency
- The Pensions Regulator
- Scheme Actuary
- Scheme Auditors
- Trade Unions
- HMRC
- AVC Provider
- Other stakeholders and bodies

5. Communication Methods

Fund Website

In order 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

The scheme website can be found at www.scottishborderscouncilpensionfund.org

Scottish Borders Council Website

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

General Communications

The fund uses both surface and e-mail to send and receive general correspondence. Our standard business hours are Monday to Thursday 8:45am to 5:00pm and Friday 8:45am to 3:45pm.

E-mail enquiries should be addressed to pensions@scotborders.gov.uk

Postal enquiries should be addressed to

Pensions Administration Team
Scottish Borders Council
Council Headquarters
Newtown St. Boswells
Melrose
Roxburghshire
TD6 0SA

Telephone enquiries should be made to the HR Shared Services helpline 01835 825052 during standard business hours.

Roadshows/Presentations

We are happy to visit employer workplaces and attend roadshows, seminars, induction and pre-retirement presentations on request, a minimum period of 4 weeks' notice will be required to allow for appropriate preparations.

Visit to our Offices

Scheme members can arrange to visit our offices to speak to a member of our Pensions Administration Team, please pre-book appointments by e-mail or telephone. We are also able to offer virtual meetings through the use of Microsoft Teams where we can share documents with scheme members and answer any questions in the same way as a traditional face to face meeting.

6. Specific Communications

Pensioners

On a monthly basis payslips are issued where there is a change in net pay of more than £5.00 when compared to the previous month, pensioners are also able to sign up to access Business World Self Service and view online copies of monthly payslips. On an annual basis P60's are issued and details in relation to the Pensions Increase and how this will apply to them.

Active Members

On joining the scheme new members are issued with a certificate of membership and a copy of the current scheme booklet. All scheme members are issued with an Annual Benefit Statement, personalised to the scheme member, these are issued by 31 August in accordance with the scheme regulations. Included with the statement are explanatory notes and forms regarding Nominated Beneficiaries to ensure these remain up to date.

In the event of changes to scheme regulations these will be brought to the attention of the scheme members either through direct mail, publication on the Fund Website and/or via the employers normal communication channels, intranet for Scottish Borders Council the Funds main employer.

Deferred Members

All deferred members are issued an Annual Benefit statement with the same information provided to the Active Members by 31 August each year.

Prospective Members

We work with employers to promote the benefits of membership of the scheme through promotional material, including scheme booklets, and access to the Fund website.

Scheme Employers

We provide an annual Pension Fund Employer Forum where all employers are invited to attend and are provided with information regarding scheme regulations in the past year and requirements for the year end, as such the events are usually held in March to ensure information pertaining to the year end is as up to date as possible. All employers are issued with the Pensions Administration Strategy outlining service standards and performance measurements against these standards.

All scheme employers have access to the Fund Website where they can obtain access to the scheme policies, additionally, there is a publicly accessible section of the Scottish Borders Council website where information relating to the joint Pension Fund Committee and Board can be accessed allowing all employers to see what is being discussed.

Pension Fund Committee and Board

In addition to papers for decisions the Pensions Investment and Administration teams present a quarterly paper bringing the Committee and Board members up to date with specific matters and updating on progress of previously agreed actions. This can be found on the Scottish Borders Council website as part of the Agenda pack for each meeting.

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2018 1.0	Creation of Pension Communication Policy	9 November 2018	Ian Angus
2020.1.1	Update on other legislation and code of practice, payslip on line and virtual meetings availability	4 September 2020	Ian Angus

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

Contact us at Ian Angus, HR Shared Services Manager, Old School Building, Newtown St Boswells, TD6 0SA
 01835 826696, iangus@scotborders.gov.uk



PENSION FUND BUDGET MONITORING TO 30 JUNE 2020

Report by Executive Director Finance & Regulatory

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

24 September 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 update position of the Pension Fund budget to 30 June 2020 including projections to 31 March 2021.**
- 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 was approved on 10 March 2020 following the recommendations within the CIPFA accounting guidelines headings. This report is the first quarterly monitoring report of the approved budgets.
- 1.4 The total expenditure to 30 June 2020 is £0.014m with a projected total expenditure of £6.901m against a budget of £6.894m. This projects a budget variance of £7k which represents additional works required to complete the GMP reconciliation.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee:-

- (a) Notes the actual expenditure to 30 June 2020; and**
- (b) Agrees the projected out-turn as the revised budget.**

3 BACKGROUND

- 3.1 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. The Fund is required to report on an annual basis within its Annual Report if it has met these standards. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 3.2 A budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 10 March 2020 for 2020/21. The approved budget follows 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.

4 MONITORING TO 30 JUNE 2020

- 4.1 The table below shows the expenditure to 30 June 20120, projected out-turn to 31 March 2021 and current approved budget for 2020/21.

	Expenditure to 30 June 20 £000's	Projected to 31 March 21 £000's	2020/21 Budget £000's	2020/21 Variance £000's
Investment Management	33	6,198	6,198	
Administration	83	408	401	7
Oversight & Governance	28	295	295	
Total	144	6,901	6,894	7

- 4.2 Investment Management fees are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. The first quarters investment management fees are not therefore included in the expenditure to 30 June 2020 totals.

- 4.3 It was anticipated with the launch of the Cost Transparency Initiative (CTI) last year Fund Managers would be able to provide information on costs on a quarterly basis which will allow the Fund to more actively monitor the fees in year. Work has been on going to encourage all Fund Managers to provide information. Fund Managers are finding the quarterly requests difficult but are working with us to resolve the issues. It is anticipated that information will be available for the majority of the Funds' assets managed in the next quarterly report.
- 4.4 The additional projected £7k administration cost is for further work required to be undertaken to complete the GMP reconciliation work. The additional work is a result of delays by HMRC and requirement to provide further data set not originally required

5 IMPLICATIONS

5.1 Financial

There are no 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. Risks 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 Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, 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

Signature

Executive Director Finance & Regulatory

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 22 June 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 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



RESPONSIBLE INVESTMENT MONITORING

Report by Executive Director Finance and Regulatory

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

24 September 2020

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Committee with the first annual monitoring report of the extent to which the Fund's Investment managers have complied with the requirements of the agreed Statement of Responsible Investment Policy.**
- 1.2 The Pension Fund as part of its fiduciary duties is required to ensure appropriate consideration is given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interest of the scheme beneficiaries. The Pension Fund approved a Responsible Investment Policy on 30 November 2018. Annual monitoring is required under the terms of the policy.
- 1.3 99.5% of the assets held by the Fund are managed by fund managers who are signatories to the United Nations Principles of Responsible Investment Code (UNPRI).
- 1.4 Information has been provided by Fund Managers and scored against questions listed in para 4.6. The scores for each manager is shown in para 4.7. Officers will work with Fund managers who score 15 or less to improve their performance and fully meet the objectives of the ESG policy.
- 1.5 The Fund is a "Supporter" of Climate Action 100+ as agreed on 12 September 2019. Climate Action 100+ has been active and successful in achieving a number of key commitments in a number of sectors to reduce carbon emissions.
- 1.6 Officers of the Fund are now actively working with the Scottish Responsible Investors roundtable group to share good practice and investigate possible areas of improvement in the Funds responsible investment.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee:

- (a) Notes the first annual performance report regarding compliance with the Pension Fund's policy on responsible investment and the scores for each of the managers**
- (b) Notes the engagement and participation work completed by the Fund.**

3 BACKGROUND

- 3.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. In doing so it is intended that the financial contributions required of Fund employers will be minimised.
- 3.2 Trustees of the Pension Fund also have 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.
- 3.3 Public interest in ESG has increased in recent years and there is a drive to increase the responsibilities placed upon Trustees for Environmental, Social and Governance issues. It is no longer acceptable for Trustees to do nothing on ESG.
- 3.4 The Joint Pension Fund Committee and Pension Fund Board approved the Statement of Responsible Investment Policy (SRIP) on 30 November 2018. This Policy sets out the Fund's approach to responsible investment and arrangements to monitor manager performance against the principles of the policy on an annual basis.

4 2019-20 MONITORING

- 4.1 The SRIP requires all new fund managers to have signed up to the United Nations Principles of Responsible Investment (UNPRI). Since the last monitoring report on 12 September 2019, four new fund management appointments have been made. Of these three were members of the UNPRI.
- 4.2 An investment made with Gaia during 2019/20 for a project focused on renewable energy. Although Gaia are not currently signatories of UNPRI the investment opportunity links directly to the aims of the agreed Responsible Investment Policy and the assists the move away from fossil fuels.
- 4.3 15 out of the 17 existing managers have confirmed they are signatories to UNPRI. The investments made with the two managers not signed, represents 0.5% of fund assets. These funds do however have clear ESG policies and are adhere to other ESG frameworks which are aligned with the SRIP principles. Brookfield is a signatory to Global Real Estate Sustainability Benchmark (GRESB), which is deemed to be the ESG benchmark for real assets. Gaia GP Ltd is a small sustainable investment fund what has sustainable investment at the core and which specialise in sustainable infrastructure assets.
- 4.4 Signatories to UNPRI report on an annual basis on their responsible investment activities by responding to asset specific modules in the UPRI reporting framework. Each module houses a variety of indicators that address specific topics of responsible investment. The reports are than assessed and results are compiled into an Assessment Report. The Assessment report includes the following
 - Indicator scores – summarising the individual scores achieved and comparing them to the median

- Section Scores – grouping similar indicator scores together into categories (e.g. policy assurance governance) and comparing them to the median
- Module scores – aggregating all the indicator scores within a module to assign one of six performance bands (from E to A+)

4.5 As part of the annual review process of Fund Managers all Managers have provided their 2019 Assessment Report. Key information for each the Managers has been extracted for the asset type held and is shown in Appendix 1.

4.6 Based on the information contained in the individual manager’s assessment reports each manager has scored between 1 – 5 over 5 key question a. These questions were

1. Do they have an integrated ESG Policy?
2. Do produce an annual ESG report?
3. Are they a signatory of the UNPRI Code?
4. Comparison of manager score again median for strategy & governance per UNPRI Assessment report?
5. Comparison of manager score against median for section scores per UNPRI Assessment report?

4.7 The table below shows the overall score for each manager funds where held with as at 31 March 2020. All Managers who are signatories to UNPRI agreed to share their Assessment Reports. Maximum score is 25.

Manager	Overall score 2019/20	% of Assets held as 31/3/2020	Overall Score 2018/19
Baillie Gifford	24.5	23.5	23
UBS	23	11.6	23
Morgan Stanley	21	13.9	20
LGT Capital	24.5	7.1	24
Blackrock	23	8.4	22
M&G	23.5	18.9	23
Partners	22	3.3	18
Permira	21	3.9	22
Macquarie	21	4.7	19
KKR	18	0.4	18
Dalmore	19	1.6	18
Brookfield	10	0.2	10
Infrared	20	0.2	24
Gaia	10	0.3	
Equitix	20	0.2	
Oaktree	15	0.2	
Alinda	17	0.4	
Cash	n/a	1.2	

- 4.8 The scores above demonstrate the fund managers all have ESG policies in place and 15 out of 17 are signatories to the UNPRI. 96.8% of the assets of the Fund are managed by fund managers who scored 20 or more, this compares to 94.6% in 2018/19.
- 4.9 The table above also demonstrates the eleven out of the twelve fund managers reported last year have score either improved or same scores as 2018/19.

5 ENGAGEMENT AND PARTICIPATION

- 5.1 The Joint Committee and Board agreed on 12 September to become "Supporter" to Climate Change 100+ initiative. The Fund has been accepted and now lends its support towards the initiative achieving the goals of the Paris Agreement.
- 5.2 Climate Action 100+, through its engagement activities, achieved a number of key commitments in a number of sectors to reduce carbon emissions. During 2020 Climate Action 100+ are looking to complete the development of a net zero company benchmark measurement system to allow progress to be monitored. These measurements will be used as a baseline to monitor progress against. Companies will be measured for three key indicators
1. How companies are performing on climate governance
 2. How companies are performing on climate action
 3. How companies are performing on climate disclosure
- 5.2 Officers are also now active in the Scottish Responsible Investor round table group. This group is formed up of Scottish Investors from both Local Government and Private sector. The group looks to share good practice and investigate areas where of improvement in the Funds responsible investment areas.

6 IMPLICATIONS

6.1 Financial

There are no direct financial impacts relating to this report.

6.2 Risk and Mitigations

The establishment of a Statement of Responsible Investment Policy and monitoring process will ensure the Fund meets its requirement under its fiduciary duties to ensure it has appropriate regards to ESG responsibilities.

6.3 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

6.4 **Acting Sustainably**

This report monitors the approved policy of responsible investment which will require Fund Managers and Companies the Fund is invested in to ensure the environmental impact of their operations are considered and encourage them to act in a sustainable way.

6.5 **Carbon Management**

This report will have no direct impact on the carbon emissions of the Council. It will however encourage Managers and Companies invested in to ensure the environmental impact of their operations are considered and encourage them to act in a sustainable way.

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/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, 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

Signature

Executive Director Finance & Regulatory

Author(s)

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

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee & Board, 12 September 2019

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

Contact us at Pensions & Investment Team, Council Headquarters, Newtown St'Boswells, Melrose, TD6 0SA
Tel 01835 825249
Email; t&cteam@scotborders.gov.uk

Baillie Gifford

	01.Strategy & Governance	A+	
>50%	10. Listed Equity - Incorporation	A+	
>50%	11. Listed Equity - Active Ownership	A+	

UBS

	01.Strategy & Governance	A+	
10-50%	10. Listed Equity - Incorporation	A	
10-50%	11. Listed Equity - Active Ownership	A+	

Morgan Stanley

	01.Strategy & Governance	A	
10-50%	10. Listed Equity - Incorporation	C	
10-50%	11. Listed Equity - Active Ownership	B	

LGT

	01.Strategy & Governance	A+	
>50%	07. Private Equity	A+	

Blackrock

	01.Strategy & Governance	A+	
<10%	17. Property	A	

M&G

	01.Strategy & Governance	A+	
10-50%	12. Fixed Income - SSA	A+	
<10%	13. Fixed Income - Corporate Financial	A+	
10-50%	14. Fixed Income - Corporate Non-Financial	A+	
<10%	15. Fixed Income - Securitized	A	

Partners

	01.Strategy & Governance	A+	
10-50%	14. Fixed Income - Corporate Non-Financial	A	

Permira

	01.Strategy & Governance	A+	
10-50%	14. Fixed Income - Corporate Non-Financial	A	

Macquarie

	01.Strategy & Governance	A+	
10-50%	18. Infrastructure	A+	

KKR

	01.Strategy & Governance	A+	
10-50%	18. Infrastructure	Not reported	

Dalmore

	01.Strategy & Governance	A+	
>50%	18. Infrastructure	A+	

Brookfield- Not a UNPRI Signatory

Equitix

	01.Strategy & Governance	A	
>50%	18. Infrastructure	A	

Infrared

	01.Strategy & Governance	A+	
>50%	18. Infrastructure	A+	

Gaia- Not a UNPRI Signatory

Oaktree-Became signatory during 2019, first reporting period for them 2020.

Alinda

	01.Strategy & Governance	A	
>50%	18. Infrastructure	B	

INFORMATION UPDATE

Briefing Paper by Executive Director Finance & Regulatory Services

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

24 September 2020

1 PURPOSE AND SUMMARY

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

2 GMP RECONCILIATION

- 2.1 Stage 2 of the GMP Reconciliation is progressing by ITM Limited on behalf of Scottish Borders Council. This stage of the project is the reconciliation of discrepancies between HMRC and Scottish Borders Council pension records for Active or Deferred members and Pensioners.
- 2.2 HMRC have provided ITM Limited with the final data from the GMP reconciliation. As a result of this delay and the provision of a further data set the initial scope of the project that we contract ITM to undertake has changed, due to the requirement to carry out a further review of this final data from HMRC. This has increased the cost of this project by £7,000.
- 2.3 The target date for completion of this additional review by ITM is 31 October 2020 and they will provide the Fund with the following output: -
- GMP Comparison Report and supporting member level outputs, for example, members with no liability but where HMRC believes the liability remains with the Scheme and any final cases that require a decision or file review
 - Member level audit trail
 - GMP data load report (i.e. values to be loaded to Altair)
 - Final SRS data (for reference)

3 ANNUAL BENEFIT STATEMENT

- 3.1 In accordance with LGPS Regulations Annual Benefit Statements for all active and deferred members were issued in advance of the 31 August 2020 deadline.

4 VISIT SCOTLAND TRANSFER

- 4.1 Visit Scotland, under Ministerial Direction, are consolidating all assets and liabilities into the Lothian Pension Fund. Officers have been involved in discussions around the consolidation. There are 2 tranches of consolidation with Scottish Borders falling into the second tranche and an effective date of transfer of 31 December 2020. The asset transfer date for all Funds will be 31 March 2021.

- 4.2 Scottish Borders Council Pension Fund have the following members within the Fund: -

Active – 1
Deferred – 8
Pensioner – 7

Communications are being provided by XPS Pension Group and Lothian Pension Fund and these will be issued to scheme members at key points prior to the consolidation

- 4.3 Any additional Actuarial and Administration costs directly attributable to this consolidation exercise will be recharged following the conclusion of the consolidation exercise.

5 SPPA VALUATION GUIDANCE

- 5.1 SPPA issued information to all administering authorities, see Appendix 1, around the two key aspects of Age Discrimination in Public Sector Service Pension Schemes and Employer Cost Cap considerations. As a Fund this information has been shared with the Fund Actuary for their inclusion in the 2020 Valuation exercise.

6 MCCLOUD CONSULTATION

- 6.1 Following a successful legal challenge to transitional protection arrangements in the firefighters' and judicial pension schemes (The McCloud and Sargeant judgements) the Scottish Government have issued proposals on 4th August 2020 to amend the regulations governing 'Transitional Protection' within the Local Government Pension Scheme in Scotland. The proposals are subject to consultation with the closing date for response on 23rd October 2020. Scottish Borders Council Pension Fund will be responding to the consultation. A Summary of the proposed changes in set out

within Appendix 2.

6.2 Officers are looking at the impact that the McCloud ruling is going to have in terms of impact on resources required to carry out this additional work. We have also had offers from both the Fund Actuary and our Software provider around support for carrying out this work in including area's such as: -

- Initial evaluation
- Extraction of template reports for Employers
- Upload to Altair
- Project Management
- Employer Liaison

This will be evaluated by officers to determine what the most appropriate course of action is with regards to this with a report back to the next Pensions Committee and Board meeting along with further details around this complex area.

7 SCHEME ADVISORY BOARD

7.1 The Scheme Advisory Board met on 24th June 2020. The agenda covered the following items, appendix 3 contains the bulletin of the meeting

- Equality issues in LGPS and fund valuations
- Civil Partnership changes
- Structure review
- Transfers out of LGPS Funds
- Cessation issues
- Update to Ministers
- Working under COVID-19

7.2 The Scheme Advisory Board also met on 16th September. No agenda was available on the website on 15th September.

8 TRAINING OPPORTUNITIES

8.1 Two training events have been organised by LGPS Officers. The training session will be held via MS Teams. The training covers the follows areas.

1st October – Governance and Investments

8th October – Pension Administration.

8.2 PSLA are holding an online conference from 12 to 16 October. The full agenda is not yet available but information has been sent to all Committee and Board members for information. Those wishing to attend should send name to Kirsty Robb before 30 September.

9 FUTURE MEETINGS

9.1 The dates of future meetings are given below for information

Joint Pension Fund Committee and Pension Fund Board

- Friday 11 December 2020
- Thursday 4 March 2021
- Thursday 10 June 2021

Pension Fund Investment Performance Sub Committee

- Tuesday 29 September 2020
- Tuesday 16 February 20221
- Tuesday 29 June 2021

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249
Ian Angus	HR Shared Services Manager, 01835 826696

For the attention of Administering Authorities

7 Tweedside Park
Tweedbank
GALASHIELS
TD1 3TE
www.pensions.gov.scot

Tel: 01896 892458
lain.Coltman@gov.scot

13 May 2020

Dear Colleagues,

2020 Triennial Valuations

I am writing to set out SPPA's current position on two key aspects for administering authorities to consider whilst undertaking the 2020 valuations.

Age Discrimination in Public Service Pension Schemes

In December 2018, the Court of Appeal found that the transitional protections introduced to the judicial and firefighters' schemes during the reform of public service pensions in 2015 discriminated on grounds of age. The UK Government sought permission to appeal this decision but this was not granted, and on 15 July 2019 the UK Government issued a [written ministerial statement](#) to confirm that as transitional protection was provided in all public service schemes, the ruling had implications for all those schemes, including the Scottish Local Government Pension Scheme (SLGPS). Details of the Court of Appeal ruling, hereafter referred to as *McCloud*, are available [here](#).

Whilst initial proposals to address the specific discrimination in the SLGPS have been shared with the scheme advisory board, there remains uncertainty around the timing and changes needed in light of *McCloud*. This uncertainty is something that administering authorities will need to consider when carrying out the 2020 triennial valuation. We are aware that a lack of clarity may lead to differences in approach between funds and, all other things being equal, could possibly result in material differences in employer contribution rates. We are keen to avoid this where possible.

We therefore suggest that all Scottish administering authorities, for the purposes of the 2020 triennial valuation, should value members' benefits as per the various Regulations in force at 31 March 2020 except for the following assumptions:

- It should be assumed that the current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and apply to all members who were active in the scheme at 31 March 2012.
- The extension of the underpin will apply to all those members who were active at 31 March 2012 but have left active status since 1 April 2015.
- The underpin will apply to all service accrued between 1 April 2015 and 31 March 2022.

SPPA expects that all administering authorities will reflect the above amendments when valuing past service liabilities and setting employer contribution rates at the 2020 triennial valuation and confirm their approach in the Funding Strategy Statement. It is likely that the Government Actuary's Department will also seek to ensure that this is the case when carrying out their Report under Section 13 of the Public Service Pensions Act 2013.

SPPA emphasises that this is an assumption about how the *McCloud* case will be resolved. It should be noted that it does not necessarily follow that this will be the actual outcome of any resolution and we ask that this should not be communicated as such to any stakeholder at this stage. Therefore, administering authorities should make provision in their funding strategy for the ability to revisit employer contributions if the actual outcome is materially different from that outlined above.

Administering authorities should also consider with their actuary what allowance is made for *McCloud* in the valuation of exit payments and credits and other day-to-day funding assessments.

Employer Cost Cap considerations

The reforms introduced to public service pensions from 1 April 2015 (or a year earlier in the case of the local government scheme in England and Wales) also included a new cost control mechanism, known as the employer cost cap.

The purpose of the mechanism was to introduce a way of sharing pension cost increases and savings between the employer (ultimately often the taxpayer) and scheme members. To assess these costs, a cost cap valuation is carried out by GAD under directions issued by HM Treasury. The first round of cost cap valuations were carried out for nearly all public sector schemes at 31 March 2016. These valuations identified a significant cost saving due mainly to lower than expected salary increases and improvements in life expectancy. The magnitude of the cost saving was, on average, between 3-5% of pay and under the mechanism where costs have increased or reduced by more than 2%, steps must be taken to return the scheme to the target cost.

The first cost cap valuation for LGPS Scotland was due to take place at 31 March 2017. As you are aware, GAD commenced this process however it has not yet been completed, as the cost cap element of scheme valuations was suspended by the UK Government in early 2019 pending the resolution of *McCloud*. In a [written ministerial statement](#) on 25 March 2020, the Economic Secretary to the Treasury outlined the UK Government's intention to provide an update on the cost cap mechanism alongside proposals to address *McCloud*.

We realise the challenges that actuaries face in considering the uncertainties in *McCloud* and the cost cap, particularly given the tight timescales for completing valuations. We regret that we are currently unable to suggest how provision might be made for any running of the cost cap process but hope to have more clarity in the next two months. We will write to administering authorities to provide an update at the earliest opportunity.

Yours sincerely

Iain Coltman
Senior Policy Manager, SPPA

McCloud Consultation

Consultation on Proposed Changes to the Scheme Rules

The McCloud and Sargeant cases

Soon after the reformed scheme benefit structures were introduced in other public service pension schemes in April 2015, legal challenges were brought against the transitional protection arrangements in the judicial and firefighters' pension schemes ('McCloud' and 'Sargeant', respectively) on grounds that the transitional protections offered to older workers constituted unjustified direct age discrimination. In those cases, younger firefighters and judges argued that younger workers were treated less favourably than older workers who were given transitional protection. The Court of Appeal ruled in December 2018 that transitional protection in the judicial and firefighters' pension schemes gave rise to unlawful age discrimination. The UK Government sought permission to appeal to the Supreme Court. This application was refused on 27 June 2019. In a written ministerial statement on 15 July 2019, the government explained that it accepted that the Court of Appeal's judgment had implications for all schemes established under the Public Service Pensions Act 2013, as all schemes had provided transitional protection arrangements for older members. The government confirmed that it would take steps to address the difference in treatment across all schemes and for all members with relevant service, regardless of whether they had lodged a claim. Since summer 2019, the Scottish Public Pensions Agency (SPPA) have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations in Scotland.

Proposed Approach for LGPS in Scotland

Unlike most other public service pension schemes, the LGPS provided transitional protection to its older workers via a statutory underpin. All members moved into the 2015 Scheme on the reform date of 1st April 2015, but protected members were given a statutory underpin that provides their retirement pension cannot be less than it would have been in the 2009 Scheme.

Through the McCloud and Sargeant cases, the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. This unlawful discrimination exists between two groups of LGPS members:

- those who were in service on 31 March 2012 and were within ten years of Normal Pension Age (NPA) on 1st April 2012, therefore benefiting from underpin protection; and,
- those who were in service on 31 March 2012 and were more than ten years from NPA, and so were not eligible for underpin protection.

At a high-level, SPPA's proposal for removing the unlawful age discrimination from the LGPS is to extend underpin protection to the second group of members listed above i.e. those who were not old enough to receive underpin protection

when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2015 onwards.

July 2020

BULLETIN

Equality issues in the LGPS and Fund valuations

Resolving the issues raised in the McCloud / Sergeant cases is being co-ordinated on a cross-UK basis, and a consultation has been issued for the LGPS in Scotland. The SPPA have written to funds advising them, for the purposes of the 2020 triennial valuation, to value members' benefits based on certain assumptions. These include that the current statutory underpin which protected members within 10 years of retirement who moved into the new scheme in 2015, would be extended to cover all scheme members and last until March 2022. In addition, the UK government has unpaused Cost Cap assessments.

Civil Partnership changes

Changes to the LGPS regulations from the Civil Partnership (Scotland) Act 2020 (which permits civil partnerships for mixed-sex couples) will be brought in later this year.

Structures Review

The COVID-19 pandemic has delayed arrangements for tendering a piece of work looking at business cases, finance and governance of potential future structures of funds. This is now being taken forward as a high priority with a special SAB meeting to agree research proposals.

Transfers out of LGPS funds

The Pensions Regulator has issued guidance to funds around the potential risks for members who transfer out of the LGPS, especially during the current pandemic. This is available at www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/communicating-to-members-during-covid-19. Funds have been urged to contact the FCA if they identify concerning patterns of transfers or requests for transfer valuations.

Cessation Issues

A SAB working group has met a number of times to consider potential changes to how liability payments are handled when an employer exits the scheme. A full report with proposals will be discussed at the next board meeting.

Update to Ministers

The SAB received correspondence from Ben Macpherson MSP, Minister for Public Finance and Migration, about key issues facing the LGPS. It has updated him, and will continue to keep the Minister well informed.

Working under COVID-19

The SAB meet in July used video-conference technology following the cancellation of its March meeting due to COVID-19 restrictions. It has now written to all boards seeking assurance that they have recovery plans in place.

Further details on our website www.lgpsab.scot.

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank