Public Document Pack

PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 4 MARCH 2021

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA

MICROSOFT TEAMS on THURSDAY, 4 MARCH 2021 at 10.00 AM

The meeting will be live streamed to the public and a link will be on the Council website.

J. J. WILKINSON,
Clerk to the Council,

26 February 2021

BUSINESS		
1.	**Apologies for Absence**	
2.	**Order of Business**	
3.	**Declarations of Interest**	
4.	**Minute** (Pages 5 - 10) Minute of Meeting held on 11 December 2020 to be noted and signed by the Chairman. (Copy attached).	5 mins
5.	**Pension Fund Investment and Performance Sub-Committee** (Pages 11 - 12) To note the Minute of the Pension Fund Investment and Performance Sub-Committee held on Tuesday, 16 February 2021. (Copy attached)	2 mins
6.	**Funding Strategy Statement** (Pages 13 - 56) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins
7.	**Triennial Valuation as at 31 March 2020** (Pages 57 - 88) Consider report by Executive Director Finance & Regulatory. (Copy attached).	15 mins
8.	**Risk Register Update** (Pages 89 - 98) Consider report by Executive Director Finance & Regulatory. (Copy attached).	15 mins
9.	**Pension Fund Budget Monitoring to 30 September 2020** (Pages 99 - 102)	10 mins

	Consider report by Executive Director Finance & Regulatory. (Copy attached).	
10.	**Internal Audit Annual Plan 2021-22** (Pages 103 - 106) Consider report by Chief Officer Audit & Risk. (Copy attached).	10 mins
11.	**Information Update** (Pages 107 - 110) Consider briefing paper by Executive Director Finance & Regulatory. (Copy attached).	10 mins
12.	**Any Other Items Previously Circulated**	
13.	**Any Other Items which the Chairman Decides are Urgent**	
14.	**Items Likely To Be Taken In Private** Before proceeding with the private business, the following motion should be approved:- "That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act."	
15.	**Minute** (Pages 111 - 112) Private Section of Minute of Meeting held on 11 December 2020 to be noted and signed by the Chairman. (Copy attached).	5 mins
16.	**Pension Fund Investment and Performance Sub-Committee** (Pages 113 - 118) To note the Private section of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 16 February 2021. (Copy attached).	5 mins
17.	**Investment Performance Quarter to 31 December 2020** (Pages 119 - 158) Consider report by Isio. (Copy attached).	30 mins
18.	**Procurement Update - Investment Advisor** (Pages 159 - 162) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**

2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors D. Parker (Chairman), J. Brown, G. Edgar, C. Hamilton, D. Moffat, S. Mountford, S. Scott, S. Aitchison, Mr 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 in To be advised on Friday, 11 December 2020 at 10.00 am

---

Present:-	Councillors D Parker (Chair – para 1 - 6), S Aitchison, J Brown, G Edgar, D Moffat, S Mountford (Chair - para 7 -), Mr D Bell, Mr M Drysdale, Mr M Everett (part) Ms K Hughes, Ms H Robertson and Ms L Ross
Apologies:-	Councillor S Scott.
In Attendance:	Executive Director Finance & Regulatory, Pensions and Investment Manager, HR Shared Services Manager, Chief Officer Audit & Risk. Democratic Services Officer (J Turnbull).
Also in Attendance:	Mrs J West, Hyman Robertson, Mr A O'Hara and Mr A Singh, Isio.

---

1. **2020 VALUATION: WHOLE FUND RESULTS**

1.1 The Chairman welcomed Mrs Julie West, Actuary from Hymans Robertson who was in attendance to give a presentation on the Pension Fund's formal valuation results. Mrs West began her presentation by explaining that the aim of the valuation was to find the balance between employer contributions and investment returns to ensure funding was in place to cover payment of future benefits to members. The Actuary determined the valuation by placing a value on all the benefits earned to date by all members, including those that had left, deferred members and active members and comparing with the Fund's assets. The Actuary also had to try to understand future risk when setting contribution rates and that rates were stable to ensure the long term sustainability of the Pension Fund. Referring to the graphs in the presentation slides, Mrs West explained the likelihood of achieving the assumed future investment return. In discussion with officers they had determined that the likelihood of being fully funded should be set at 70%. The key assumptions in determining the 70% likelihood was: investment returns decreasing, salary increases and benefit increases. The demographic assumption also influenced when benefits were paid and for how long. The most influential of which was life expectancy. Hymans Robertson were able to drill down to local level to set a life expectancy based on the trends shown for specific areas. Since the last valuation on 31 March 2017: inflation had dropped, demographic assumptions had changed, adopting VitaCurves longevity assumption and changes in financial assumptions, such as future investment returns. This had resulted in a decrease in the Fund surplus from £81m to £63m.

1.2 Mrs West went on to discuss uncertainties considered when determining their valuation. The McCloud judgement, ruled protection for those within 10 years of retirement at 31 March 2012. The true costs of this would not be known until all potentially affected members had retired. This judgement would be a significant burden for the administration of the Fund. The Actuary's valuation had made an allowance for the McCloud judgement. The Cost Cap Valuation meant that if the cost of the scheme decreased, future benefits earned would need to increase to the original cost assessed for the scheme. The Actuary's valuation had not made an allowance for Cost Cap.

1.3 Mrs West then explained that the Actuary determined a funding level by considering different future scenarios. She highlighted three scenarios which were all in excess of

70%. However, with the potential of Cost Cap the decision reached with officers, was for contributions to stay at the same level for two years and then increase by ½% in the third year. This would give a protection against future uncertainties. The next steps in the valuation process was continuing the work of setting contribution rates for the remaining employers in the Fund and also revising the Funding Strategy Statement. The final valuation would be completed by 31 March 2021.

1.4 In response to questions, Mrs West advised that the Goodwin judgement had not been published but it was likely to be more of an administration challenge. As it only affected a small number of individuals it was not anticipated to have a significant impact on liabilities. Regarding the 1/2% increase in year three, this was to manage future uncertainty and protect the Fund. The Chairman thanked Mrs West for her attendance and comprehensive, clear presentation.

DECISION
NOTED the presentation.

2. **MINUTES**
There had been circulated copies of the Minutes of the Meetings of 24 September 2020 and 26 November 2020.

DECISION
NOTED for signature by the Chairman the Minute of the Meeting held on 24 September 2020 and the Minute of the Special Meeting held on 26 November 2020.

3. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**
There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 29 September 2020

DECISION
NOTED.

4. **RISK REGISTER UPDATE**
With reference to paragraph 5 of the Minute of 24 September, there had been circulated copies of a report by the Executive Director Finance and Regulatory. The report formed part of the risk review requirements of the Pension Fund Committee and Pension Board with an update on progress of the actions taken my management to mitigate risks and highlighted changes to any of the risks contained in the Risk Register. Identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. A full risk review was undertaken on 15 May 2020 and the revised Risk Register approved by the joint Pension Fund Committee and Pension Board on 22 June 2020, with an update of the action undertaken on 24 September 2020. Appendix 1 to the report detailed the risks within the approved Risk Register which had identified management actions and the progress of these actions to date.

DECISION
a) **NOTED:**
   (i) the management actions progress as contained in Appendix 1, to the report; and
   (ii) no new quantifiable risks had been identified since the last review.

b) **AGREED to a key risk review being undertaken in March 2021 and a report on progress on risk management actions.**

5. **BUSINESS PLAN PERFORMANCE UPDATE**

There had been circulated copies of a report by Executive Director Finance and Regulatory providing and update on delivery of actions within the approved Business Plan. The 2020/21 – 2022/23 Business Plan for the Pension Fund was approved by the Committee and Board on 22 June 2020. Included within the Plan were key objectives and actions with target dates. A summary of the progress of the actions was included in Appendix 1 to the report. As part of the risk register update, approved on 24 September, it was agreed that a mid-year progress report on Business Plan actions would be presented to members at the December 2020 meeting and a further progress report and update at the June 2021 meeting. The report explained that there were 25 key tasks due for completion during 2020/21. Of these, 11 were fully completed, seven were on track to be completed by the approved target date and seven required revised target dates as detailed below. Mrs Robb confirmed that all legislative requirements had been met and explained that staff resource constraints and the impact of Covid-19 were the reasons for the revised target dates.

DECISION

(a) NOTED the progress of the 2020/21 actions within the business plan;

(b) AGREED:

(i) the revised target date of 31 March 2021 for completion of the Triennial valuation;

(ii) the revised target date of 31 March 2021 for completion of the Cessation and Discretion policy which will be included in the Funding Strategy Statement;

(iii) the revised target date of 30 June 2021 for the review of admission agreements;

(iv) the revised target date of 30 June 2021 for the review of employer guarantees;

(v) the revised target date of 31 March 2021 for the implementation of i-Connect;

(vi) the revised target date of 30 June 2021 for the review of the Stewardship Code; and

(vii) the revised target date of 31 March 2021 for the procurement of Investment Advisor.

6. **PENSION FUND BUDGET MONITORING**

With reference to paragraph 8 of the Minute of 24 September 2020 there had been circulated copies of a report by Executive Director Finance and Regulatory providing an update on the Pension Fund budget to 30 September 2020 including projections to 31 March 2021. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and sets out the standards that were to be measured against. To ensure the Fund met the standards a budget was approved on 10 March 2020 following the recommendations within the CIPFA accounting guidelines headings. This report was the second quarterly monitoring report of the approved budgets. The total expenditure to 30 September 2020 was £0.314m with a projected total expenditure of £6.906m against a budget of £6.901m. This projected a budget variance of £5k which represented the commissioned work to undertake the Funding Strategy Statement. The Committee congratulated the Pensions Team on keeping the budget on target during this difficult time.

DECISION

(a) NOTED the actual expenditure to 30 September 2020.

(b) AGREED the projected out-turn as the revised budget.

MEMBER
Councillor Parker left the meeting following consideration of the above report. Councillor Mountford in the Chair.

7. **INVESTMENT TAXATION REVIEW**
There had been circulated copies of a report by the Executive Director Finance and Regulatory updating the Committee and Board on the findings of a review undertaken by KPMG on the reclaiming of taxation on the Fund's overseas investments. This review was approved as part of the agreed Business Plan to ensure the Fund was as tax efficient as possible. The report explained that the income generated by these investments could be subject to Withholding Tax (WHT) in the country of origin. The WHT was deducted at different rates depending on the tax regime in the country where the investment was held. This withheld tax could be reclaimed under certain circumstances. To ensure the performance of investments was maximised the Fund needed to ensure it reclaimed as much WHT as possible. KMPG were commissioned to undertake the review which was broken down into three parts. Review of the performance of Northern Trust as the Fund's custodian for the segregated funds. Review of the infrastructure investments made in collaboration with Lothian Pension Fund and a review of investments in pooled funds. The review of the performance of Northern Trust for the segregated funds highlighted a small number of differences in rates reclaimed, which have now been addressed. The review of the infrastructure investments made in collaboration with Lothian Pension Fund highlighted one investment which had triggered a US filing obligation. The costs and requirements of this was currently under fuller investigation but might result in additional costs for the Fund. The review of the pooled funds held confirmed all funds were tax efficient. Mrs Robb advised that since publishing the report KPMG advised that no final obligation was required for any of the funds held and therefore 5.1(b) on the report was no longer relevant.

DECISION
(a) NOTED the outcome of the taxation review.

(b) APPROVED, when appropriate**, the filing of any required USA tax documents with the assistance of KMPG.**

8. **INFORMATION UPDATE**
8.1 There had been circulated copies of a briefing paper by Executive Director Finance and Regulatory providing an update on a number of areas which were being monitored and where work was progressing. Full reports on individual actions would be tabled as decisions and actions were required. In summary:-

8.2 **Data Quality**
Mr Angus explained that the Common Data results would never meet all the requirements of the Pension Regulator. For example, some oversea addresses had no postcode and there were no NI numbers for children under 16 years of age. An update would be provided at the next meeting on any rectification work required.

8.3 **McCloud Consultation**
Officers from all Scottish LGPS Funds had submitted a combined response to the McCloud consultation, a copy of which was attached to the briefing paper. Mr Angus highlighted the significant complexity the judgement would have for the administration of the Scheme and also concern that the software supplier would be able to meet the timeline. A further update would be provided following conclusion of the consultation.

8.4 **AVC Update**

Mr Angus advised that there had been a further increase of 18 employees participating in the Shared Cost AVC Scheme. The Scheme was promoted through the intranet, Fund website and SB Scene.

8.5 **Scheme Advisory Board**
The Appendix to the briefing paper contained the bulletin from the SAB meeting held on 16 September. It was noted that a full response was submitted on 27 November following the Pension Fund Special meeting on 26 November. The Chairman advised that at the meeting on 9 December it was considered that the paper lacked clarity and specific information on the brief for tender and governance was required. The joint secretaries were asked to prepare a new report for consideration at a special meeting to be held in January 2021. The procurement exercise would be in two stages: a brief for the four different options, followed by an analysis of the information and reporting back to the SAB.

8.6 **Training Opportunities**
Mrs Robb gave an update on recent training events. The annual PLSA Investment Conference on 9th to11 March would be a virtual event. Once further information was available she would circulate. To date six Pension Fund Committee members and seven Pension Board members had completed the minimum training requirements. Any member who had not completed the requirement would be notified.

8.7 **Future Meetings**
Joint Pension Fund Committee and Pension Board – Thursday, 4 March 2021 and Thursday 10 June 2021. Pension Fund Investment Performance Sub Committee – Tuesday, 16 February 2021 and Tuesday, 29 June 2021.

DECISION
NOTED the briefing paper.

9. **PRIVATE BUSINESS**
AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to excluded the public from the meeting during consideration of the business contained in the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 6 and 8 of Part 1 of Schedule 7A to the Act.

10. **MINUTES**
The Committee noted the Private Minute of the meetings of 24 September and 26 November 2020.

11. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**
The Committee noted the Private Minute of the Pension Fund Investment and Performance Sub-Committee of 29 September 2020.

12. **QUARTER PERFORMANCE UPDATE**
The Committee and Board considered a private report by Isio.

MEMBER
Councillor Parker re-joined the meeting during consideration of the above report.

The meeting concluded at 11.45 am

This page is intentionally left blank

SCOTTISH BORDERS COUNCIL
PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE

MINUTES of Meeting of the PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE held Via Microsoft Teams on Tuesday, 16 February 2021 at 1.00 pm

---

Present:-	Councillors S Mountford (Chairman), J Brown, G Edgar, C Hamilton, D Moffat, S Scott, Ms K M Hughes and Ms L Ross.
Apologies:-	Councillor D Parker.
In Attendance:-	Director of Finance and Regulatory, Pension & Investments Manager, Mr D O'Hara and Mr A Singh (Isio) and Democratic Services Officer (J Turnbull).

---

1. **WELCOME**
The Chairman welcomed everyone to the online meeting.

2. **MINUTE**
The Committee noted the Minute of the meeting of 29 September 2020.

DECISION
NOTED for signature by the Chairman.

3. **PRIVATE BUSINESS**
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 grounds that they involved the likely disclosure of exempt information as defined in paragraphs 6 and 8 of part 1 of Schedule 7A to the Act.

SUMMARY OF PRIVATE BUSINESS

4. **PRIVATE MINUTE**
The Sub-Committee noted for signature the Private Minute of 29 September 2020.

5. **ISIO MANAGER BRIEFING**
The Sub-Committee noted a Manager Briefing Paper by Isio.

6. **PRESENTATION – UBS.**
The Sub-Committee noted a presentation by UBS.

7. **PRESENTATION – M & G INVESTMENTS**
The Sub-Committee noted a presentation by M & G Investments.

8. **PRESENTATION – BLACKROCK UK LONG LEASE PROPERTY FUND**
The Sub-Committee noted a presentation by Blackrock Long Lease Property Fund.

9. **MORGAN STANLEY TRANSISTION**
The Sub-Committee considered a report by the Executive Director of Finance and Regulatory.

The meeting concluded at 4.00 pm

This page is intentionally left blank

FUNDING STRATEGY STATEMENT

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

04 March 2021

1 PURPOSE AND SUMMARY

1.1 **This report proposes the revised Funding Strategy Statement following the completion of the 2020 Triennial Valuation.**

1.2 The Pension Fund is required by the Local Government Pension Scheme Regulations to have an up-to-date Funding Strategy Statement (FSS). The 2020 Triennial Valuation of the Fund has triggered a review and revision of the existing document.

1.3 The review of the FSS has been undertaken in collaboration with Hymans Robertson the Funds' Actuary and active employers within the Fund have been consulted.

1.4 The revised FSS, shown in Appendix, 1 has been developed to be transparent and to clearly set out the objectives of the Fund, the methodology used in the valuations and the key policies of the Fund in a number of areas.

1.5 Within the 2020-21 Business Plan it was agreed that there should be a cessation policy developed. Based on advice from the Fund Actuary it was determined that it is more appropriate that this be included within the FSS and this has now been incorporated in the revised version submitted for Committee Approval.

2 RECOMMENDATIONS

2.1 **It is recommended that the Committee approve the Funding Strategy Statement contained in Appendix 1.**

3 BACKGROUND

3.1 It is a requirement of the Local Government Pension Scheme (Scotland) Regulations 2014 that the Pension Fund maintains a Funding Strategy Statement (FSS) and keeps this under review. The FSS must be reviewed and approved prior to the completion of each valuation.

3.2 Guidance issued by CIPFA on preparing and maintain an FSS sets out the key elements to be included and the requirement to consult with appropriate parties.

3.2 The FSS provides the context for communication on funding, employer contribution rates and funding risks with scheme employers and other Pension Fund stakeholders. Additionally, the FSS provides employers with an understanding of their obligations to the Fund.

3.3 The FSS is required to provide sufficient detail on how the funding strategy and associated funding risks are managed in respect of the main categories of employer and other stakeholders.

4 FUNDING STRATEGY STATEMENT

4.1 Appendix 1 contains the revised Funding Strategy Statement (FSS).

4.2 As part of the 2020 triennial valuation the Fund, in collaboration with Hymans Robertson the Funds Actuary, and in consultation with the Fund's active employers, a review has been undertaken of the FSS approved at the joint meeting held on 22 June 2020.

4.3 The review of the Strategy has resulted in a more detailed and transparent content which fully adheres to the CIPFA guidance. Key areas which have been included or expanded upon from the previous strategy are as follows: -

1.4	**How does the Fund and FSS affect me?** – new section to aid readers understanding on how the contents of the FSS relate to them.
2.1	**How does the actuary calculate the required contribution rate?** – increased content along with a detailed appendix to provide a clear and full explanation of the methodology used in the calculation of the employer contribution rates.
2.3	**What different types of employer participate in the Fund?** – new section describing the different admission types of employers.
2.4	**How does the calculated contributions rate vary for different employers?** – new section which details considerations used in the calculation of contribution rates.
2.5	**How is a funding level calculated?** – revised explanation of how the funding level is calculated.
2.7	**What approach has the Fund taken to dealing with uncertainty arising from the McCloud Court case.....?** – new section to explain the approach taken in the valuation to allow for the potential impact on the LGPS Funds as a result of the McCloud case. An allowance has been included in the Fund's

	liabilities, as per the instructions from SPPA.
2.8	**What approach has the Fund taken to dealing with uncertainty arising from the Goodwin case?** – new section highlighting the Goodwin case and that no allowance has been included in the valuation. No allowance has been included in the Fund's liabilities as impact is expected to be small and more of an administrative burden.
2.9	**What approach has the Fund taken to dealing with uncertainty arising from the paused Cost Cap mechanism…..? –** new section highlighting the risk to the Fund from the Cost Cap and the steps taken by the Fund in the valuation and setting of employer contribution rates. No explicit allowance has been included, however, there is a minimum 0.5% increase prior to 31 March 2024 on employer contribution rate.
2.10	**When will the next actuarial valuation be? –** new section highlighting the consultation on the future valuation cycle and including the right of the Fund to review contributions if the intervaluation period is extended.
3	**Calculating contributions for individual Employers** – new section detailing the considerations included in the calculation of individual employers rates and setting out the rights of the Administrating Authority and individual employer in the setting of contribution rates.
3.3 (note g)	**New Admission Bodies** – new section setting out the requirements of any new body requesting admittance to the Fund. Individual admission agreements will still be required in accordance with the Funds Admission Policy.
3.3 (note h)	**Admission Bodies Ceasing –** increased detail setting out the Funds policy on the calculation of cessation valuations. This section fulfils the action outlined within the Business Plan for 2020-21 to create a Cessation Policy.
3.7	**Ill health early retirement costs** – new section which requires employers to fund any strain costs resulting from ill health early retirement where it exceeds the allowance in previous valuation. This will be monitored by the Pensions Administration Team for any breach of the allowance.
3.8	**Employers with no remaining active members** – new section detailing the Funds approach.
3.9	**Policies on bulk transfers** – new section detailing the Funds approach.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report. Any substantive changes arising from future actuarial valuations and revisions to funding objectives and/or strategies could potentially have an impact on employers contribution rates.

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. 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.

6.2 As part of the development of the FSS all active employers of the Fund have been consulted on the draft FSS and comments have been considered in the finalisation of the FSS.

Approved by

David Robertson **Signature .....**
Executive Director Finance & Regulatory

Author(s)

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

Background Papers: Funding Strategy Statement & Statement of Investment Principles 2020
Previous Minute Reference: Joint Pension Fund Committee & 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: t&cteam@scotborders.gov.

This page is intentionally left blank

Scottish Borders Council Pension Fund

DRAFT Funding Strategy Statement

January 2021

CONTENTS

Appendices

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Scottish Borders Council Pension Fund ("the Fund"), which is administered by Scottish Borders Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 31 March 2021.

1.2 What is the Scottish Borders Pension Fund?

The Fund is part of the Scottish Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole country. The Administering Authority runs the Scottish Borders Council Pension Fund, in effect the LGPS for the Scottish Borders area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the various LGPS Regulations applicable to Scotland. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations applicable in Scotland;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's admission policy
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: you will want to know how your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact the Pension & Investment Team in the first instance at e-mail address treasuryteam@scotborders.gov.uk or on telephone number 01835 825249

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate or additional lump sum payments. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: colleges, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

Admission bodies - Other employers are able to participate in the Fund via an admission agreement and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7

.

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of surplus or deficit is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services.

It should be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1).

In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments over the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018, collectively referred to as the 'McCloud' judgement. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2015 in the case of the LGPS in Scotland) were unlawful on the grounds of age discrimination. The exact details of the solution to the McCloud judgement have yet to be confirmed. A consultation on this closed on 23 October 2020 and is currently under consideration by the Scottish Public Pensions Agency (SPPA).

In May 2020, the SPPA set out their expectations for how funds should allow for this uncertainty in the benefit structure as part of their 2020 valuations. The Fund Actuary has included an allowance in the Fund's liabilities in line with SPPA's instructions.

2.8 What approach has the Fund taken to dealing with uncertainty arising from the Goodwin case

The Goodwin tribunal was raised in the Teacher's scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teacher's scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination. This finding and remedy is expected to apply across all public service pension schemes, including the LGPS

The impact of the Goodwin case on Fund liabilities is expected to be small and will largely be an administrative concern. In the absence of a resolution to this case or any guidance, no allowance has been made for this within the 2020 formal valuation.

2.9 What approach has the Fund taken to dealing with uncertainty arising from the paused Cost Cap mechanism and its potential impact on the LGPS benefit structure?

As part of the public sector pension scheme reforms in the first half of the 2010s, a mechanism was put in place to protect employers from significant increases in future pension costs. The mechanism is symmetrical in its design – following a Cost Cap valuation carried out by the Government Actuary's Department (GAD), if the scheme is calculated to have a lower/(higher) than intended cost to employers, then action will be taken: improvements/(reductions) in future benefit accrual and/or increases/(reductions) in employee contribution rates.

The first Cost Cap mechanism for LGPS Scotland was as at 31 March 2017, however this has been put on hold until the McCloud judgement is resolved. There is currently no information available about the results of the 2017 Cost Cap valuation and whether a change in the benefit structure and/or employee contribution rates from 1 April 2020 may occur.

No explicit allowance for a change in the future benefit structure has been made during this valuation. However, the employer contribution rates set as part of the 2020 valuation will all increase from their previous levels over the three year period following 1 April 2021 in order to manage the uncertainty around the result of the Cost Cap valuation. All employer rates will increase by a minimum of 0.5% prior to 31 March 2024 but may be higher.

Once the outcome of the Cost Cap valuation case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate. Should the result of the Cost Cap valuation result in an increase in the benefits earned by members, the contributions may require a further increase from their current levels.

2.10 When will the next actuarial valuation be?

On 21 January 2020 SPPA issued a consultation seeking views on proposals to amend the LGPS valuation cycle in Scotland from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle. This consultation closed on 9 March 2020 and is currently under consideration by SPPA.

In the absence of any update on this consultation prior to the agreement of the Rates and Adjustments Certificate, the Fund will assume that the next valuation will happen on 31 March 2023 and reserves the right to review contributions if the intervaluation period is extended.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scottish Borders Council Pool	Other Scheduled Bodies	Community Admission Bodies	Transferee Admission Bodies
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)	Low risk exit basis - see Note (a)	Ongoing participation basis (see Appendix E)
Primary rate approach	(see Appendix D – D.2)			
Stabilised contribution rate?	Yes - see Note (b)	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	Salary-weighted average future working lifetime	Outstanding contract term
Secondary rate – Note (d)	% of payroll	% of payroll	Monetary amount	Monetary amount if closed to new entrants. Otherwise % of payroll
Likelihood of achieving target – Note (e)	70%	70%	50%	70%
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations			
New employer	n/a	Note (g)		Notes (g)
Cessation of participation: exit debt/credit payable	See Note (h).			

Note (a) (Low risk exit basis for CABs closed to new entrants)

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission body is closed to future new entrants (either explicitly, or implicitly due to a lack of employees joining the Fund in recent times).

the Administering Authority will set a higher funding target (e.g. the "low risk exit" basis as per E3, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2020 valuation exercise, (see Section 4), the Fund have adopted a stabilisation approach that contributions will change by no more than 0.5% of pay per annum.

The eligible employers are those that participate within the Scottish Borders Pool for funding purposes.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2021 for the 2020 valuation). The Administering Authority would normally expect the same period to be used at successive

triennial valuations but would reserve the right to propose alternative time horizons, for example where an employer closed to new entrants over the inter-valuation period.

Subject to ratification by the Actuary, the time horizon may be extended (but not beyond 20 years) depending on the ability and willingness of the employer to make good the deficit over a longer time period.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between formal valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed to new entrants.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers;
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted which will increase the funding target and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

The Fund reserves the right to review contributions as an employer approaches the end of a fixed term contract.

Note (g) (New Admission Bodies)

All new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond, as set out in the LGPS Regulations. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed on an annual basis.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, or the Scottish or UK Government, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (h) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action by issuing a written suspension notice, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus following the Local Government Pension Scheme (Scotland) Regulations 2018 which came into effect on 1 May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (h) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2015 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation

valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2015) are confirmed, the Fund's policy is that the actuary will value the employer's liabilities in line with instructions SPPA set out for the 2020 formal valuations.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation , and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer.

Where an employer who participates in the Scottish Borders Council pool ceases, a cessation valuation will be triggered and will be carried out in the same manner as outlined below depending on the type of employer. As the employers have benefitted from a pooled contribution rate, they will not be eligible to receive an exit credit should there be a surplus on cessation.

Any shortfall calculated in the cessation valuation would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible, then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit and would carry out the cessation valuation on an ongoing basis: secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the low risk exit basis. Furthermore, the Fund reserves the right to revert to a "low risk cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases.

Community Admission Bodies

For Community Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit/surplus will normally be calculated using a "low risk cessation basis", which is more prudent than the ongoing valuation basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required;

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort (i.e. will only step in to pay for employer liabilities if the employer is unable to), and therefore the cessation valuation will be carried out consistently with the approach taken had there

been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the Fund's ongoing valuation basis; or

(c) Again, depending on the nature of the guarantee, it may be possible to simply pool the former Admission Body's liabilities and assets with the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Transferee Admission Bodies

For Transferee Admission Bodies the cessation liabilities and final deficit/surplus will normally be calculated using a methodology that is consistent with the Fund's ongoing basis.

For Transferee Admission Bodies whose participation is voluntarily ended by themselves, the cessation debt/credit will be calculated using the "low risk cessation basis" described under (a) above.

3.4 Pooled contributions

The Fund operates a strategy of pooling all employers, other than those listed below, for contribution rate setting purposes.

The employers who do not participate in the pool are:

- CGI
- Scottish Borders Housing Association
- South of Scotland Enterprise

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when individual members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary where the data is available to do so. Some employers therefore will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2009 and April 2015). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

It is assumed that all payments will be made in a single lump sum.

3.7 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

Employers will usually have an 'ill health allowance'. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (h)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases.

3.9 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- Where only active members transfer out, the Fund will not pay bulk transfers greater than the value of the members' liabilities had they opted to transfer on an individual basis (i.e. Cash Equivalent Transfer Values);
- Where the entire membership of the employer (i.e. active, deferred and pensioner members) transfers out, the Fund will not pay a bulk transfer greater than the asset share of the transferring employer;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and

- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles, which is available to members and employers.

The investment strategy is set for the long-term but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the Government (see Appendix A1).

In the short term – such as the assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments howover has over the previous 5 years increased it's diversification over a number of asset categories, reducing the level of equities.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers, on each of the LGPS Funds in Scotland. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional SPPA oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, SPPA may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy; and

3. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

SPPA may assess and compare these and other metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The purpose of the FSS 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-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish an FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in 29 January 2021 for comment;

b) Comments were requested within 20 days;

c) Following the end of the consultation period the FSS was updated where required and then published, in [DATE].

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.scottishborderscouncilpensionfund.org;
- A full copy is linked from the annual report and accounts of the Fund.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.9). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period following an annual review that will take place each year. These would be needed to reflect any regulatory changes, or alterations

to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Administration Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.scottishborderscouncilpensionfund.org.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures; and
6. the SPPA/Scottish Ministers (assisted by the Government Actuary's Department) and the Scottish LGPS Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- Administrative
- Asset and Investment
- Employer
- Liquidity
- Regulatory and Compliance
- Reputation

The Fund's risk register can be found at: Scottish Borders Council Pension Fund website and be viewed by clicking here.

Appendix D – The calculation of Employer contributions

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1) Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2) Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3) Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to SPPA (see section 5), is calculated in effect as the sum of all the individual employer rates. SPPA currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the Primary rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details), and

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. . Further information about this model is included in Appendix E. The contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below);
2. at the end of the determined time horizon (see 3.3 Note (c) for further details); and
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must

apportion the assets of the whole Fund between the individual employers. This is done using a ‘cashflow approach’ in which an employer’s assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer’s assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer’s assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund’s assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers’ asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer’s asset share to the receiving employer’s asset share. This sum is equal to the member’s Cash Equivalent Transfer Value (CETV) as advised by the Fund’s administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

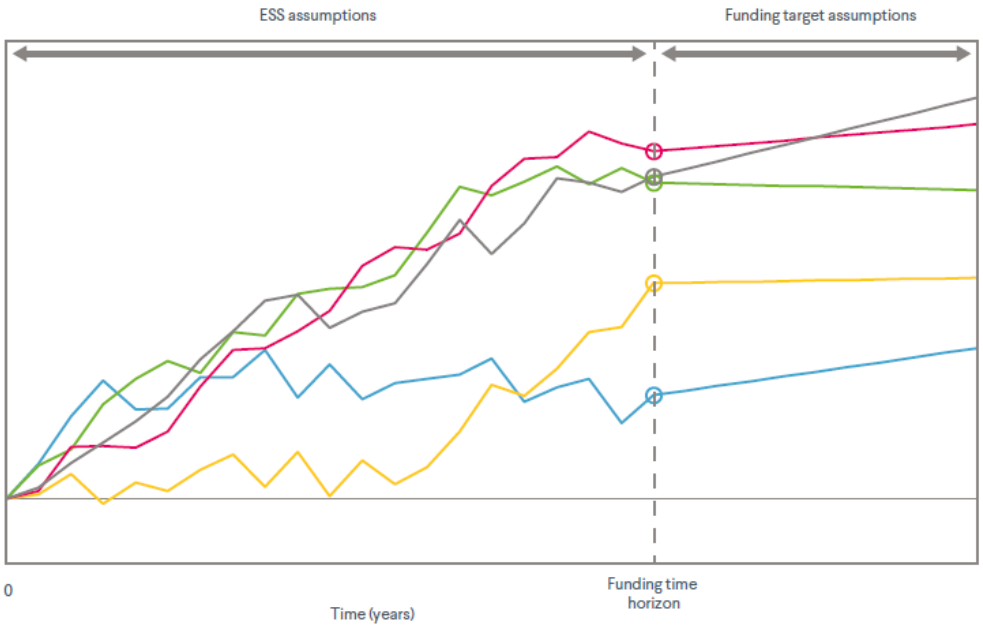
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2020. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated Corporate Bonds (medium)	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-0.6%	-3.0%	-2.9%	-5.3%	-5.2%	-3.7%	-2.1%	1.3%	-2.7%	0.2%
	50th %'ile	0.2%	0.0%	-0.3%	3.7%	3.9%	2.1%	1.3%	2.8%	-1.8%	1.3%
	84th %'ile	1.0%	3.0%	2.5%	13.6%	13.4%	8.7%	4.5%	4.3%	-0.9%	2.5%
10 years	16th %'ile	-0.4%	-2.5%	-2.0%	-2.1%	-2.1%	-1.8%	-1.1%	1.4%	-2.2%	0.6%
	50th %'ile	0.6%	-0.4%	-0.5%	4.3%	4.3%	2.5%	0.8%	2.9%	-0.9%	2.0%
	84th %'ile	1.7%	1.8%	1.0%	10.7%	10.5%	7.2%	2.6%	4.6%	0.3%	3.8%
20 years	16th %'ile	0.2%	-1.5%	-0.6%	0.6%	0.8%	0.2%	0.2%	1.4%	-1.6%	1.2%
	50th %'ile	1.6%	0.2%	0.2%	5.2%	5.3%	3.6%	1.3%	2.9%	0.1%	3.1%
	84th %'ile	3.3%	1.9%	1.0%	9.9%	10.0%	7.4%	2.4%	4.5%	1.9%	5.7%
	Volatility (Disp) (1 yr)	0%	7%	8%	27%	28%	14%	10%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Low risk exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

The salary increase assumption at the 2020 valuation has been set to be a blended rate combined of:

1. 2% p.a. for the next 4 years, followed by

2. 1% above the consumer prices index (CPI) p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.7%. This is a change from the previous valuation, which assumed a flat assumption of CPI plus 1% per annum. The change has led to a reduction in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

We derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At the 2020 valuation, and for the purposes of setting contributions we have used the assumption that CPI will be 0.9% per annum lower than RPI on average. (Note that the reduction is applied in a geometric, not arithmetic, basis).

For the purposes of reporting the funding level as at 31 March 2020, we have adopted a CPI assumption of 1.9% (which is RPI less 0.7% at that date) to reflect the long-term Bank of England target.

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2019 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.5% per annum minimum underpin to future reductions in mortality rates. This results in slightly lower life expectancies than was assumed at the 2017 valuation.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is

	autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, some universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.

TRIENNIAL VALUATION AS AT 31 MARCH 2020

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

04 March 2021

1 PURPOSE AND SUMMARY

1.1 **This report details the results from the triennial valuation for the Scottish Borders Council Pension Fund as at the 31 March 2020 and proposes the employer contribution rates for the next three financial years.**

1.2 The full Valuation Report prepared by the Fund Actuary Hymans Robertson is contained in Appendix 1 and concludes that the Scottish Borders Council Pension Fund has a funding level of 110% compared to the previous 2017 valuation of 114%. This equates to a funding surplus of £63m.

1.3 The revised "Primary rate" calculated has increased from 20.6% to 21.9% and the surplus has reduced to £63m. However, to allow employer contributions for those in the Scottish Borders Council Pool to remain stable for the first two years the Actuary has recommended the surplus be utilised but the rates increase in year 3 for the Scottish Borders Council Pool by 0.5% to mitigate for the uncertainties.

1.4 There are a number of uncertainties such as McCloud and the Cost Cap Mechanism for which impacts to the Fund are unknown. The 0.5% common pool rate increase provides an element of mitigation. The full impact will be monitored for possible implications to the liabilities and consequent contribution rates.

1.5 Scottish Borders Housing Association (SBHA) and CGI are both operating as closed funds with new employees unable to join the fund. Due to the increased risk with these employers, individual rates are recommended by the Actuary.

1.6 South of Scotland Enterprise were admitted to the Fund in 2019. In accordance with the admission agreement they are not within the Scottish Borders Council Pool. Therefore, individual rates have been calculated with a recommended increase in 2021/22 of 0.5% and further increase of 0.5% in 2023/24.

2 RECOMMENDATIONS

2.1 **It is recommended that the Pension Fund Committee**

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

(b) Agree the recommended Scottish Borders Council Pool rates of 18.0% for 2021/22 and 2022/23 and 18.5% for 2023/24;

(c) Agree the recommended rates for SBHA of 20.3% 2021/22, 20.8% for 2022/23 and 21.3% for 2023/24;

(d) Agree the recommended rate for CGI of 22% from 1st April 2021 with additional one of payments of £16,500 for 2021/22 and 2022/23 and £21,000 for 2023/24

(e) Agree the recommended rates for SOSE of 21.1% for 2021/22 and 2022/23 and 21.6% for 2023/24

3 BACKGROUND

3.1 It is a requirement of the LGPS Regulations that the Pension Fund undertakes an actuarial valuation of the assets and liabilities of the Fund every three years. The regulation requires the methodology used for the valuation "must have regard to" the following requirements:-

- Desirability of maintaining as nearly constant a primary rate as possible
- The current version of the administering authority's funding strategy statement
- The requirement to secure the solvency of the pension fund; and
- The long term cost efficiency of the Scheme, so far as relating to the pension fund.

3.2 The valuation is based on the membership data, benefits accrued and estimates of futures benefits as well as the value of assets held and the future performance of these assets. Key assumptions are agreed with the Actuary around future pay increases, inflation and future performance of assets. The previous valuation as at 31 March 2017 showed a funding position of 114%.

3.3 The valuation also set the contribution rate for employers for the next three years. The valuation undertaken as at 31 March 2017 and resulted in the Scottish Borders Council Pool contribution rate of 18% of payroll. For the closed funds the rates of 20.3% for SBHA and 21.1% for CGI were set.

4 TRIENNIAL VALUATION AS AT 31 MARCH 2020

4.1 The valuation shows that the funding level of the Fund as at 31 March 2020 is 110% which compares with 114% at the previous 31 March 2017 valuation date and 101% at the March 2014 valuation. The detailed Valuation Report is contained in Appendix 1.

4.2 The key assumptions adopted in the valuation, by the Actuary are set out in the table below

Financial Assumption	31 March 2020	31 March 2017
Investment return	3.8%	5.0%
Pay Increases	2.6%	3.8%
Benefits Increase	1.9%	2.8%

4.3 The following table summarises the position of the overall valuation result for the Fund:

Valuation	31 March 2020 £m	31 March 2017 £m
Value of Scheme Liabilities	(650.0)	(573.3)
Smoothed Asset Value	713.0	653.9
Surplus/(deficit)	**63.0**	**80.6**
Funding Level	**110%**	**114%**

4.4 The reduction in the overall funding level is a result of a number of factors. Liabilities have increased due to accrual of new benefits and increase in benefits, this has been offset slightly by a decrease in longevity and lower salary increases. However, it is critical to note that the reported funding level does not directly drive the employer contribution rates that will be set.

4.5 Based on the current funding position of the Fund and the prudent assumptions used in the valuation the Scottish Borders Council pooled primary rate has increased from 20.6% to 21.9%. However to allow overall contributions to remain stable for the first two years and due to the surplus of £63m held the actuary has recommend an element of the surplus is utilised to stabilise the employer contribution rates.

4.6 Due to the increase of the primary rate and the uncertainties around the impact of McCloud and the Cost Cap Mechanism rate an increase of 0.5% for the Scottish Borders Council pool is recommended in year 3. This will be monitored as the impacts of the uncertainties become known.

4.7 The table below details the employer contribution rates for each employer to be applied from 1st April 2021. All employers have been notified of these rates.

Employer	**2020/21 rate %**	**2021/22 rate %**	**2022/23 rate %**	**2023/24 rate %**
Scottish Borders Council Pool	18.0	18.0	18.0	18.5
Scottish Borders Housing Association (SBHA)	20.3	20.3	20.8	21.3
CGI	21.1			
South Of Scotland Enterprise (SOSE)	20.6	21.1	21.1	21.6

4.8 Due to the closed nature of SBHA and CGI individual employer rates are recommended. Due to a deficit position of CGI it is recommended additional lump sums are requested in 2021/22 and 2022/23 of £16,500 and £21,000 in 2023/24. These recommendations reflect the risk to the Fund of the closed nature of the employer.

4.9 As a new Employer to the Fund in 2019 SOSE does not have a surplus position, which is a point of consideration for any SOSE employee who transfers in pension rights from another Fund. SOSE are currently also still in the position of recruiting employees meaning the full demographics and consequential liabilities are not yet fully known. The recommended rates make allowance for this and are stepped to allow SOSE a period to make the necessary budget allowance. The rate will continue to be monitored as the number of employees with SOSE increase.

5 IMPLICATIONS

5.1 Financial

This report contains the recommendations on the future employer contribution rates for the Pool for the next 3 years. The recommendation is that these do not change from the current level until year 3, allowing Employers within the pool time to make provisions for the increase. The exceptions to this are SBHA and CGI which are both closed to new entrants and SOSE as newly admitted employer with no surplus funding.

5.2 Risk and Mitigations

(a) The triennial valuation process is part of the risk management framework for the Pension Fund and ensures that the assets and liabilities are assessed to determine the ability of the Pension Fund to meet its future pension liabilities.

(b) The March 2020 Valuation is based on a series of actuarial assumptions including the level of investment returns, mortality and ill health rates and retirement date assumptions. Any deviations from these assumptions over time may have positive and negative effects on the funding levels of the Pension Fund.

(c) The continuing uncertainty in the global economic climate means that investment returns, in particular, are subject to short and medium term volatility. As a result the impact of this on employers' contribution rates will continue to be monitored during the inter-valuation period.

(d) The 2020 triennial valuation has made an allowance for the McCloud ruling but the final impact is still unknown. Additional risks also remain around the Cost Cap Mechanism impact which is currently unknown. The recommended contribution rates have taken some allowance for this but will need to be reassessed once further information is known.

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 Ian Angus	Pension & Investment Manager, 01835 825249 HR Shared Services Manager, 01835 826696

Background Papers: Triennial valuation as at 31 March 2017
Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 14 June 2018

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. 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: t&cteam@scotborders.gov.

HYMANS ROBERTSON

Scottish Borders Pension Fund

Actuarial valuation as at 31 March 2020

DRAFT Final valuation report

23 February 2021

Contents

Executive summary

We have carried out an actuarial valuation of the Scottish Borders Pension Fund as at 31 March 2020. The results are presented in this report and are summarised below.

Funding position

The table below summarises the reported funding position of the Fund as at 31 March 2017 and 31 March 2020, figures are in £(m).

Valuation Date	31 March 2017	31 March 2020
Past Service Liablities	**573**	**650**
Market Value of Assets	**654**	**713**
Surplus/ (Deficit)	**81**	**63**
Funding Level	**114%**	**110%**

Although the funding level is similar to the last valuation, the value of the assets and liabilities have both grown significantly over the 3 year period. The underlying changes in market conditions and actuarial assumptions that have led to the funding position above are set out in more details in section 3.

Contribution rates

The table below summarises the whole fund Primary and Secondary contribution rates at this triennial valuation:

	Last Valuation 31 March 2017		This Valuation 31 March 2020	
Primary Rate (% of pay)	20.6%		22.1%	
Secondary Rate (%)	2018/19	-2.6%	2021/22	-4.0%
	2019/20	-2.6%	2022/23	-4.0%
	2020/21	-2.6%	2023/24	-3.5%

Similar to the reported funding position movement, the average total employer contribution rate has remained stable when compared to the 2017 valuation of the Fund. However, changes to funding positions and contribution rates for individual employers have been more variable.

The minimum contributions to be paid by each employer from 1 April 2021 to 31 March 2024 to are shown in the Rates and Adjustment Certificate in Appendix 3.

1 Introduction

Background to the actuarial valuation

We have been commissioned by Scottish Borders Council ("the Administering Authority") to carry out an actuarial valuation of the Scottish Borders Pension Fund ("the Fund") as at 31 March 2020 as required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 ("the Regulations").

The actuarial valuation is a risk management exercise with the purpose of reviewing the current funding plans and setting contribution rates for the Fund's participating employers for the period from 1 April 2021 to 31 March 2024. This report summarises the outcomes of the valuation and the underlying advice provided to the Administering Authority throughout the valuation process.

This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our 2020 valuation toolkit which sets out the methodology used when reviewing funding plans:
- Our Initial Results Report dated 27 November 2020 which outlines the whole fund results and inter-valuation experience;
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members.

Reliances and limitations

This report has been prepared for the sole use of Scottish Borders Council in its role as Administering Authority of the Fund to provide an actuarial valuation of the Fund as required under the Regulations. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS 100 – Principles for technical actuarial work;
- TAS 300 – Pensions.

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

Use of this report by other parties

This report is addressed to the Administering Authority of the Fund only. We appreciate that other parties may also seek information about the 2020 valuation process and methodology. We would encourage such parties to refer to the following publicly available documents for further information:

- The Fund's Funding Strategy Statement;
- The Fund's Statement of Investment Principles;
- Published meeting papers and minutes for the quarterly meetings of the Fund's Pensions Committee.

Considering these papers alongside this valuation report will provide a more complete view of the Fund's funding strategy and decision-making process surrounding this. These documents are available on the Fund's website or on request.

2 Valuation approach

Employer contribution rates

The purpose of the valuation is to review the current funding strategy and ensure the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due.

Valuations for open defined benefit multi-employer pension funds such as the Scottish Borders Pension Fund are complex. Firstly, the time horizons are very long; benefits earned in the LGPS today will be paid out over a period of the next 80 years or more, and new members will continue to join in the future. Secondly, as they depend on unknowns such as future inflation and life expectancy, the actual value of future benefit payments is uncertain. Finally, to keep contributions affordable, the Fund invests in return-seeking assets which have higher levels of future volatility.

Given the above and that the future cannot be predicted with certainty, employer contribution rates can only ever be an estimate. However, the valuation approach adopted uses an understanding of the Fund, and the uncertainties and risks discussed above, to quantify the likelihood of the contribution plan and investment strategy for each employer being sufficient to fund future benefits.

This is achieved in practice by following the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) for each employer which defines the estimated amount of assets to be held to meet the future benefit payments.

Step 2: The Fund sets the funding time horizon over which the funding target is to be achieved.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

These three steps are central to the "risk-based" approach to funding which is described in Guide 5 (*Employer risk based funding*) of our 2020 valuation toolkit[2].

The risk-based approach uses an Asset Liability Model, as described in Guide 6 (*Understanding ALMs*) of the 2020 valuation toolkit, to project each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore asset values) are variables in the projections. Further details of these variables are provided in Appendix 2. The investment strategy underlying the projection of employer asset values is provided in Appendix 1.

By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of the future projections being successful i.e. meeting the funding target by the funding time horizon.

The risk-based approach to setting employer contributions allows the Fund and its employers to understand and quantify the level of risk inherent in funding plans, something that is not possible using a single set of assumptions alone.

[2] https://www.hymans.co.uk/media/uploads/LGPS_Valuation_toolkit_2020.pdf

Further detail on the approach to calculating contributions for individual employers, including the parameters used in the three steps for each type of employer, is set out in the Funding Strategy Statement dated March 2021.

Funding position as at 31 March 2020

The valuation also offers an opportunity to measure the Fund's funding position as at 31 March 2020. Whilst this measurement has limited insight into understanding the long term ability to be able to pay members' benefits, it is a useful summary statistic.

For the purposes of this valuation we have adopted a "mark to market" approach, meaning that the Fund's assets have been taken into account at their market value and the liabilities have been valued by reference to a single set of assumptions based on market indicators at the valuation date. These assumptions are detailed in Appendix 2. As we have taken a market-related approach to the valuation of both the assets and the liabilities, we believe that they have been valued on a consistent basis.

Significant events

McCloud judgement

The figures in this report are based on our understanding of the benefit structure of the LGPS in Scotland as at 31 March 2020 (details can be found at http://www.scotlgpsregs.org) with one exception. The LGPS benefit structure is currently under review following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018, collectively referred to as the 'McCloud judgement'. The exact details of the solution to the McCloud judgement have yet to be confirmed. A consultation on this closed on 23 October 2020 and is currently under consideration by the Scottish Public Pensions Agency (SPPA).

In May 2020, the SPPA set out their expectations for how funds should allow for this uncertainty in the benefit structure at the 2020 valuation. We have valued the Fund's liabilities in line with SPPA's instructions. Further details are set out in Guide 11 (*Allowing for McCloud and the Cost Cap mechanism*) of our 2020 valuation toolkit.

Cost cap mechanism

Alongside the McCloud judgement, there is another ongoing national process which is resulting in current uncertainty around the benefit structure of the LGPS – the "cost cap" mechanism. As part of the public sector pension scheme reforms in the first half of the 2010s, a mechanism was put in place to protect employers from significant increases in future pension costs. The mechanism is symmetrical in its design – following a Cost Cap valuation, if the scheme is determined to have either a lower than intended cost or a higher than intended cost to employers, then action will be taken: either a change in the benefit structure for future benefit accrual or a change in employee contribution rates. The first Cost Cap mechanism for LGPS Scotland was as at 31 March 2017, however this has been put on hold until the McCloud judgement is resolved.

At the time of writing, there is no information available about the results of the 2017 Cost Cap valuation and whether a change in the benefit structure from 1 April 2020 may occur. Once the outcome of the Cost Cap valuation is known, the Fund may revisit contribution rates set to ensure they remain appropriate. Further details are set out in Section 2.9 of the Funding Strategy Statement.

Indexation and equalisation of Guaranteed Minimum Pensions (GMP)

As a result of the Government's introduction of a single-tier state pension (STP) there is currently uncertainty around how who funds certain elements of increases on GMPs for members reaching State Pension Age after 6 April 2016.

As part of the introduction of STP, the Government confirmed that public service pension schemes, including the LGPS, will be responsible for funding all increases on GMP as an 'interim solution'. In their January 2018 consultation response, HM Treasury confirmed that the 'interim solution' will continue to remain in place up to 5 April 2021. The Government recently consulted upon an extension of this interim solution until at least April 2024, with further questions on whether the interim solution should be made permanent or GMP is converted to scheme pension.

For the 2020 valuation, given the Government's 2020 consultation only considers full indexation or conversion of GMP to scheme pension as a possible long term approach, we have assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This has served to increase the value placed on the liabilities.

The Government are also seeking to ensure that their preferred long term indexation solution will also meet the requirements of equalisation.

Coronavirus pandemic

Financial markets have been exceptionally volatile in 2020 as a result of the ongoing Covid-19 pandemic. For defined benefit pension schemes like the LGPS, the impact has been felt in the value of scheme assets.

The first quarter of 2020 saw significant falls in asset values as a result of the pandemic, reaching a low point in the middle of March. Whilst markets started to pick up in the second half of March, they had only partially recovered by the valuation date of 31 March 2020. The funding level reported at 31 March 2020 (see Section 3) is based on the asset value and market conditions as at this date and is therefore lower than would have anticipated at the start of 2020. However, the funding level is only a snapshot of the Fund at one particular day.

As the LGPS is an open, long-term pension scheme, the reported funding level at the valuation date does not directly drive the employer contribution rates that have been set.

3 Valuation results

Employer contribution rates

The key objective of the Fund is to set employer contributions that are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding surplus or deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain relatively stable employer contribution rates.

In order to meet the above objectives, the methodology set out in Section 2 has been used to set employer contributions from 1 April 2021.

Employer contributions are made up of two elements:

a) the estimated cost of future benefits being built up each year, after deducting members' own contributions and including an allowance for the Fund's administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the total contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The Primary rate and Secondary rate for every contributing employer in the Fund is set out in the Rates and Adjustments Certificate in Appendix 3.

Each employer has been certified primary and secondary contributions that are appropriate for that employer's circumstances and which reflects that employer's experience.

The table below summarises the whole fund Primary and Secondary Contribution rates at this valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the Regulations and CIPFA guidance. The whole fund Primary and Secondary contributions calculated at the 2017 valuation of the Fund are shown for comparison.

	Last Valuation 31 March 2017		This Valuation 31 March 2020	
Primary Rate (% of pay)	20.6%		22.1%	
Secondary Rate (%)	2018/19 2019/20 2020/21	-2.6% -2.6% -2.6%	2021/22 2022/23 2023/24	-4.0% -4.0% -3.5%

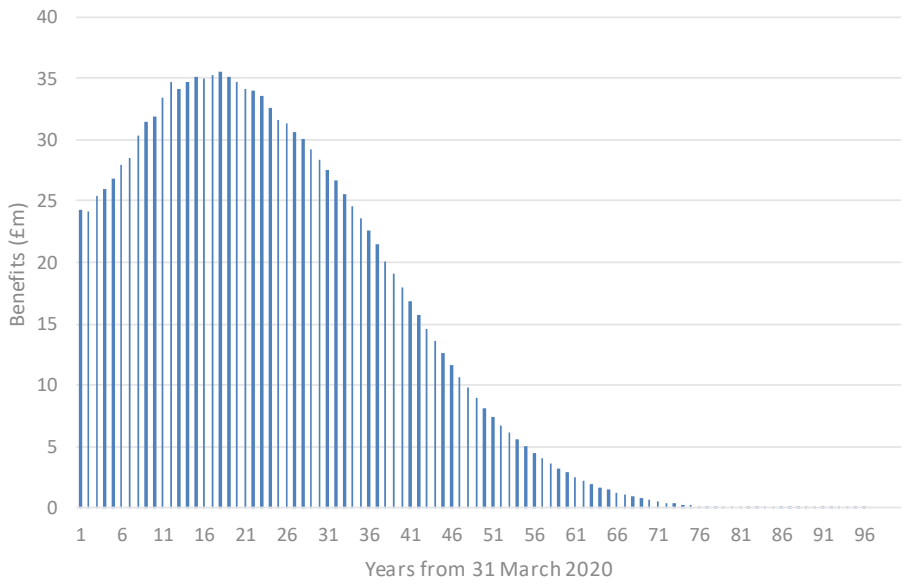
The Primary rate includes an allowance of 0.8% of pensionable pay for the Fund's expenses (0.2% at the 2017 valuation).

The average employee contribution rate is 6.0% of pensionable pay (6.0% of pay at the 2017 valuation).

Funding position as at 31 March 2020

The funding position is a summary statistic often quoted to give an indication of the health of the fund. It is limited as it provides only a snapshot in time and is based on a single set of assumptions about the future. To measure the funding position at 31 March 2020, we compare the value of the Fund's assets on that date against the expected cost (including an allowance for future investment returns) of all the future benefit payments accrued up to the valuation date (the liabilities).

The chart below details the projected future benefit payments based on the membership data summarised in Appendix 1 and the demographic, salary and benefit increases assumptions summarised in Appendix 2.

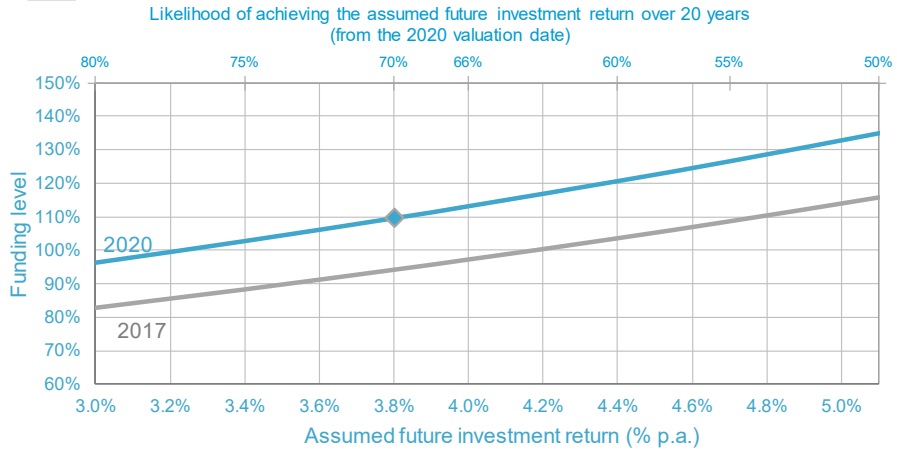


Using an assumption about the future investment return generated from the Fund's assets then allows a value to be placed on these payments in today's money; the liabilities. The higher the assumed investment return, the lower the liability value and therefore the higher the funding level.

The value placed on the liabilities is extremely sensitive to the investment return assumption. Based on the Fund's current investment strategy (detailed in Appendix 1) and the same model used in the contribution rate calculations, it is estimated that:

- There is a 50% likelihood of the Fund's investments achieving at least an annual return of 5.1% p.a. over the next 20 years;
- There is a 70% likelihood of the Fund's investments achieving at least an annual return of 3.8% p.a. over the next 20 years; and
- There is an 80% likelihood of the Fund's investments achieving at least an annual return of 3.0% p.a. over the next 20 years.

The following chart shows how the funding level varies with the future investment return assumption (blue line). For comparison, the funding level associated with the same choice of investment return assumption at the 2017 valuation is also shown (grey line).



From this chart, we can see that:

- The funding position would be 100% if future investment returns are around 3.0% p.a. (at 2017, the investment return would have needed to be 4.2% p.a.). The likelihood of the Fund's assets yielding at least this return is around 76%.
- If future investment returns were 5.1% p.a. then the Fund currently holds sufficient assets to meet 139% of the accrued liabilities. The likelihood of the Fund's assets yielding at least this return is 50%. 139% can therefore be considered the "best estimate" funding position.

Reported funding position

The valuation outputs are more meaningful when stakeholders can understand the likelihood, and hence the level of prudence, attached to them. The above chart does this for the measurement of the funding position.

However, there is still a requirement to report a single funding position at 31 March 2020. This reported position must include a margin of prudence.

For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2020 valuation, an investment return of 3.8% p.a. has been used. It is estimated that the Fund's assets have a 70% likelihood of achieving this return.

The resulting funding position is as follows:

Valuation Date	31 March 2017	31 March 2020
Past Service Liabilities	**(£m)**	**(£m)**
Employees	250	259
Deferred Pensioners	75	94
Pensioners	248	296
Total Liabilities	**573**	**650**
Assets	**654**	**713**
Surplus / (Deficit)	**81**	**63**
Funding Level	**114%**	**110%**

There has been a deterioration in the reported funding level since 31 March 2017 from 114% to 110% and a decrease to the funding surplus from £81m to £63m.

A breakdown of the key factors that have influenced the reported funding position from 31 March 2017 to 31 March 2020 are detailed overleaf.

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2017	**654**	**573**	**81**
Cashflows			
Employer contributions paid in	43		43
Employee contributions paid in	14		14
Benefits paid out	(68)	(68)	0
Net transfers into / out of the Fund*	(2)		(2)
Other cashflows (e.g. Fund expenses)	(2)		(2)
Expected changes in membership			
Interest on benefits already accrued		90	(90)
Accrual of new benefits		64	(64)
Membership experience vs expectations			
Salary increases less than expected		(1)	1
Benefit increases less than expected		(6)	6
Early retirement strain (and contributions)	2	1	1
Ill health retirement strain		2	(2)
Early leavers greater than expected		(3)	3
Pensions ceasing less than expected		1	(1)
Commutation less than expected		0	(0)
Other membership experience		(6)	6
Changes in market conditions			
Investment returns on the Fund's assets	72		72
Changes in future inflation expectations		(50)	50
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(3)	3
Change in longevity assumptions		(22)	22
Change in benefit increases assumption		(24)	24
Change in salary increase assumption		(6)	6
Change in future investment return assumption		108	(108)
This valuation at 31 March 2020	**713**	**650**	**63**

Note that figures may not sum due to rounding. Other membership experience includes the impact of the McCloud judgement and GMP equalisation. Further details are available on request.

Since the previous valuation, various events have taken place which affect the value placed on the liabilities, including:

- There is an interest cost of £90m. This is broadly three years of compound interest at 5.0% p.a. applied to the previous valuation liability value of £573m. The benefits that have been accrued to the valuation date are three years closer to payment at 31 March 2020 than they were at 31 March 2017, meaning there is less opportunity for future investment returns to help meet this cost. This serves to increase the value placed on the liabilities;
- The areas of membership experience that have had the greatest impact on the surplus/deficit position of the Fund are set out below, together with their impact on the liabilities

	Expected	Actual	Difference	Impact on Liabilities
Pre-retirement experience				
Early leavers (no of lives)	483	1,411	928	Positive
Ill health retirements (no of lives)	34	76	42	Negative
Salary increases (p.a.)	4.0%	3.9%	(0.1%)	Positive
Post-retirement experience				
Benefit increases (p.a.)	2.8%	2.4%	(0.4%)	Broadly neutral
Pensions ceasing (£000)	1,322	1,386	64	Negative

- The changes to the longevity assumptions used for the valuation have resulted in a reduction in life expectancies. This has served to reduce the liabilities by £22m;
- The assumed rate of future CPI inflation has decreased from 2.8% p.a. at 31 March 2017 to 1.9% p.a. at 31 March 2020. This has decreased the value of the liabilities by £26m;
- The assumed rate of future investment returns has decreased from 5.0% p.a. to 3.8% p.a.. This has increased the value of the liabilities by £108m.

There has been an increase in the value of the Fund's assets since the previous valuation because:

- The investment return on the Fund's assets for the period 31 March 2017 to 31 March 2020 was 11.4%. This has increased the value of the assets by £72m;
- Net cashflows into the Fund for the period 31 March 2017 to 31 March 2020 were £-13m, so contributions received were more than offset benefits paid out by the Fund.

Projection of the funding position

The progression of the funding position will depend on various factors including future asset performance, economic conditions and membership movements. If the financial and demographic assumptions made at this valuation are borne out in practice, and there are no changes to the valuation assumptions, we project that the funding level at the 2023 valuation date will be approximately 107%. This allows for contributions to be paid as described in Appendix 3.

4 Sensitivity analysis

The results set out in this report are based on assumptions about the future. The actual cost of providing the benefits will depend on the actual experience of the Fund, which could be significantly better or worse than assumed. This section discusses the sensitivity of the results to some of the key assumptions.

Sensitivity of contribution rates to changes in assumptions

The approach to setting employer contribution rates mitigates the limitation of relying on one particular set of assumptions about the future by recognising the uncertainty around future investment returns and inflation. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions.

The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

Sensitivity of the funding position to changes in assumptions

The reported valuation funding position is based on one set of actuarial assumptions about the future of the Fund. If all of the assumptions made were exactly borne out in practice then the liability value presented in this report would represent the actual cost of providing benefits from the Fund as it stands at 31 March 2020.

Sensitivity of the funding position to future investment returns

The chart in Section 3 details how the funding position varies with the future assumed investment return.

Sensitivity of the funding position to future inflation

Pensions (both in payment and in deferment) in the LGPS increase annually in line with CPI. Furthermore, benefits accrued in the CARE scheme are revalued annually in line with CPI. If future CPI inflation is higher than the assumed rate of 1.9% p.a. then the cost of the benefits at 31 March 2020 will be higher than we have set out in Section 3.

The table quantifies the impact on the funding position at 31 March 2020 of varying the benefit increases and CARE revaluation (CPI) assumption below.

CPI Assumption	Surplus/(Deficit)	Funding Level
% pa	(£m)	%
1.7%	81	113%
1.9%	63	110%
2.1%	50	107%

Sensitivity of the funding position to life expectancy

The main area of demographic risk is people living longer than expected. If long term mortality rates fall at a rate of 1.75% p.a. (compared to the assumed 1.5% p.a.) then members will live slightly longer than we have assumed in this valuation. The impact on the funding position is detailed below.

Long term rate of improvement	Surplus/(Deficit)	Funding Level
% pa	(£m)	%
1.50%	63	110%
1.75%	58	109%

Other demographic risks to consider

There are other risk factors which would have an impact on the funding position. Examples of these include the level of ill health retirements, withdrawals from the scheme and take up of the 50:50 option. These are probably unlikely to change in such a way that would rank them as amongst the highest risks facing the Fund and therefore there has been no further quantification of their risk.

Comment on sensitivity analysis

Note that the tables above show the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of the assumptions simultaneously and so the precise effect on the funding position is therefore more complex. Furthermore, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme experience could actually be.

Other risks to consider

Regulatory, Administration and Governance risks

As well as financial and demographic risks, the Fund also faces:

- Regulatory risks – central government legislation could significantly change the cost of the scheme in the future; and
- Administration and governance risk – failures in administration processes could lead to incorrect data and inaccuracies in the actuarial calculations.

These risks are considered and monitored by the Fund as part of its ongoing risk management framework.

Resource and environment risks

The Fund is exposed to risks relating to future resource constraints and environmental changes. These risks may prove to be material.

Climate change is a complex issue for the Fund. Adverse future climate change outcomes will have an impact on future longevity, inflation, government and corporate bond yields and equity returns.

Whilst there has been no explicit increase in certified employer contributions related to climate change, these risks may be considered by the Administering Authority when assessing the output from contribution rate ('comPASS') modelling.

Risk management

Employers participating in the Fund are exposed to a number of risks. These include, but are not limited to:

- Investment risk;
- Market risks;
- Demographic risks;
- Regulatory risks;
- Administration and Governance risks;
- Resource and Environmental risks.

The Funding Strategy Statement has further details about these risks and what actions the Fund takes to monitor, mitigate and manage each one.

5 Post valuation events

Post valuation market conditions

At 19 February 2021, we estimate that the whole fund investment return since 31 March 2020 would be in the region of 16%. All else being equal, the funding level at the time of writing will be higher than that reported as at 31 March 2020.

This experience may be of interest to employers in the Fund who are due to leave the Fund in the short-term and are required to ensure full funding at exit. Given that this positive investment performance would not directly feed through to employer contribution rates due to the long-term approach taken when setting rates, post valuation experience is not of material concern.

Goodwin ruling

In June 2020, an employment tribunal ruled that a subset of male survivors of female pensioners were discriminated against in the Teacher's Pension Scheme on ground of sexual orientation.

Whilst this ruling was only tested in the Teachers' Pension Scheme, it is expected to apply to other public sector pension schemes, including the LGPS, due to the similarity in benefits.

The remedy will involve increases in benefits to affected male survivors. However, as we expect the impact of this rectification to be very minor in terms of overall liabilities, no allowance has been made for the Goodwin ruling at the 2020 valuation.

6 Final comments

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Statement of Investment Principles, which sets out the investment strategy for the Fund;
- the general governance of the Fund, such as meetings of the Pensions Committee and Local Pension Board, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register; and
- the information the Fund holds about the participating employers.

Intervaluation employer events

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to us in accordance with Regulation 61 of the Regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund; or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement;

should be referred to us to consider the impact on the Fund.

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2023 where contribution rates payable from 1 April 2024 will be set.

[SIGNATURE] [SIGNATURE]

Julie West FFA Natalie Alexander AFA

For and on behalf of Hymans Robertson LLP

23 February 2021

Appendices

Appendix 1 – Data

Membership data as at 31 March 2020

A summary of the membership data provided by the Administering Authority for the purposes of the valuation at 31 March 2020 is shown below. The corresponding membership data from the previous valuation is also shown for reference.

Whole Fund Membership Data	Last Valuation 31 March 2017	This Valuation 31 March 2020
Employee members		
Number	4,435	4,526
Total Actual Pay (£000)	74,731	80,635
Total Accrued Pension (£000) (80ths)	-	5,022
Total Accrued Pension (£000) (60ths)	-	4,566
Total Accrued Pension (£000) (CARE)	2,900	6,606
Average Age (liability weighted)	51.6	53.0
Future Working Lifetime (years)	10.8	8.7
Deferred pensioners		
Number	2,707	2,975
Total Accrued Pension (£000)	4,427	5,606
Average Age (liability weighted)	49.1	52.1
Pensioners		
Number	3,326	3,845
Total pensions in payment (£000)	16,398	19,392
Average Age (liability weighted)	70.2	68.4
Average duration of liabilities	17.4	16.6

Benchmark investment strategy

The following investment strategy, provided by the Fund, has been used to assess employer contribution rates and to set the future investment return assumption as at 31 March 2020:

% allocation	Current strategy
UK equities	10%
Overseas equities	30%
Infrastructure	5%
Total growth assets	45%
Index-linked gilts	5%
Total protection assets	5%
Multi asset credit	8%
Infrastructure debt	8%
Long lease property	10%
Alternatives	10%
Absolute return bonds	10%
Property	5%
Total income generating assets	50%

Other data used in this valuation

We have also relied upon asset and accounting data from the Fund's published 2017/18, 2018/19 and 2019/20 Annual Report and Accounts. Employer level cashflow data was provided by the Administering Authority and reconciled against the information shown in these documents.

Comment on data quality

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have carried out validations on the membership data provided to ensure it is fit for the purpose of the valuation. Further details can be found in our report issued to the Administering Authority entitled "Data report for 2020 valuation", dated 31 October 2020. We believe the membership data is fit for the purposes of this valuation.

Appendix 2 – Assumptions

Financial assumptions used to set employer contribution rates

Projection of assets and benefit payments

The approach to setting employer contribution rates does not rely on a single set of assumptions but involves the projection of an employer's future benefit payments, contributions and investment returns under 5,000 future economic scenarios. In this modelling, inflation (and therefore benefit payments) and investment returns for each asset class (and employer asset values) are variables and take different values in each projection.

The model underlying these projections is Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2020. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to simulated yields at that time horizon.

31 March 2020

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated Corporate Bonds (medium)	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-0.6%	-3.0%	-2.9%	-5.3%	-5.2%	-3.7%	-2.1%	1.3%	-2.7%	0.2%
	50th %'ile	0.2%	0.0%	-0.3%	3.7%	3.9%	2.1%	1.3%	2.8%	-1.8%	1.3%
	84th %'ile	1.0%	3.0%	2.5%	13.6%	13.4%	8.7%	4.5%	4.3%	-0.9%	2.5%
10 years	16th %'ile	-0.4%	-2.5%	-2.0%	-2.1%	-2.1%	-1.8%	-1.1%	1.4%	-2.2%	0.6%
	50th %'ile	0.6%	-0.4%	-0.5%	4.3%	4.3%	2.5%	0.8%	2.9%	-0.9%	2.0%
	84th %'ile	1.7%	1.8%	1.0%	10.7%	10.5%	7.2%	2.6%	4.6%	0.3%	3.8%
20 years	16th %'ile	0.2%	-1.5%	-0.6%	0.6%	0.8%	0.2%	0.2%	1.4%	-1.6%	1.2%
	50th %'ile	1.6%	0.2%	0.2%	5.2%	5.3%	3.6%	1.3%	2.9%	0.1%	3.1%
	84th %'ile	3.3%	1.9%	1.0%	9.9%	10.0%	7.4%	2.4%	4.5%	1.9%	5.7%
	Volatility (Disp) (1 yr)	0%	7%	8%	27%	28%	14%	10%	1%		

Funding target

At the end of an employer's funding time horizon, an assessment is made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). To value the cost of future benefits, assumptions are made about the following financial factors:

- Benefit increases and CARE revaluation;
- Salary growth;
- Investment returns (the "discount rate").

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is not appropriate for every projection. Therefore, instead of using a fixed value, each assumption is set with reference to an economic indicator. The economic indicators used are:

Assumptions	Economic Indicator
Benefit increases	Future CPI inflation expectations
CARE revaluation	Future CPI inflation expectations
Salary increases	As above plus 0.7% p.a.
Future investment returns	Prevailing risk free rate of return plus margin

The Fund has two funding bases which will apply to different employers depending on their type. Each funding basis uses a different margin in the future investment return assumption.

Financial assumptions used to assess the funding position

Salary and Benefit Increases

Funding Basis	Margin above risk-free rate
Ongoing participation	1.80%
Low-risk exit basis	0%

Financial Assumptions (p.a.)	31 March 2017	31 March 2020
Benefit increases and CARE revaluation (CPI)	2.8%	1.9%
Salary increases	3.8%*	2.6%**

*CPI plus 1.0%
**CPI plus 0.7%

Investment Return

The reported funding position is based on an assumed future investment return of 3.8% p.a.. The derivation of this assumption is set out in Section 3 and based on the calibration of the ESS model on 31 March 2020 which is detailed below.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated Corporate Bonds (medium)	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-0.6%	-3.0%	-2.9%	-5.3%	-5.2%	-3.7%	-2.1%	1.3%	-2.7%	0.2%
	50th %'ile	0.2%	0.0%	-0.3%	3.7%	3.9%	2.1%	1.3%	2.8%	-1.8%	1.3%
	84th %'ile	1.0%	3.0%	2.5%	13.6%	13.4%	8.7%	4.5%	4.3%	-0.9%	2.5%
10 years	16th %'ile	-0.4%	-2.5%	-2.0%	-2.1%	-2.1%	-1.8%	-1.1%	1.4%	-2.2%	0.6%
	50th %'ile	0.6%	-0.4%	-0.5%	4.3%	4.3%	2.5%	0.8%	2.9%	-0.9%	2.0%
	84th %'ile	1.7%	1.8%	1.0%	10.7%	10.5%	7.2%	2.6%	4.6%	0.3%	3.8%
20 years	16th %'ile	0.2%	-1.5%	-0.6%	0.6%	0.8%	0.2%	0.2%	1.4%	-1.6%	1.2%
	50th %'ile	1.6%	0.2%	0.2%	5.2%	5.3%	3.6%	1.3%	2.9%	0.1%	3.1%
	84th %'ile	3.3%	1.9%	1.0%	9.9%	10.0%	7.4%	2.4%	4.5%	1.9%	5.7%
	Volatility (Disp) (1 yr)	0%	7%	8%	27%	28%	14%	10%	1%		

The equivalent assumption at the 2017 valuation was 5.0% p.a.. This was derived in a different way, please see the 2017 valuation report for further details.

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding position.

Longevity

As the fund is a member of Club Vita, the baseline longevity assumptions are a bespoke set of Vita Curves that are tailored to fit the membership profile of the Fund. These curves are based on the data the Fund has provided us with for the purposes of this valuation.

We have also allowed for future improvements in mortality based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. for both women and men.

Longevity Assumptions	31 March 2017	31 March 2020
Baseline Longevity	S2PA	Club Vita
Future Improvements	CMI2016, Smoothing factor 7.5, 1.5% p.a. long term	CMI2019, Smoothed, 1.50% p.a. long term

Full details are available on request.

The longevity assumptions result in the following typical future life expectancies from age 65 (figures for 2017 shown for comparison):

Assumed Life Expectancy	31 March 2017	31 March 2020
Male		
Pensioners	21.7 years	20.9 years
Non-pensioners	23.5 years	21.9 years
Female		
Pensioners	24.3 years	23.5 years
Non-pensioners	26.2 years	25.4 years

Non-pensioners are assumed to be aged 45 at the valuation date

Other demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailored our demographic assumptions to reflect LGPS experience. The resulting demographic assumptions are as follows:

Demographic Assumptions	
Retirements in normal health	We have adopted the retirement age pattern assumption as specified by the Scheme Advisory Board in England & Wales for carrying out their 2016 cost cap valuation. Further details are available on request.
Death in Service	See sample rates below
Retirements in ill health	See sample rates below
Withdrawals	See sample rates below
Promotional salary increases	See sample increases below
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependant of a female member is assumed to be 3 years older than her.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2009 (equivalent 75% for service from 1 April 2009).
50:50 option	0.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

Sample rates for demographic assumptions

Males

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	267.99	401.99	0.00	0.00	0.00	0.00
25	117	0.21	177.02	265.53	0.11	0.02	0.13	0.02
30	131	0.26	125.57	188.35	0.21	0.03	0.23	0.03
35	144	0.30	98.09	147.13	0.41	0.14	0.46	0.15
40	150	0.51	78.93	118.39	0.62	0.26	0.69	0.24
45	157	0.86	64.58	96.87	0.99	0.51	1.09	0.49
50	162	1.37	50.03	75.04	1.86	1.31	2.59	1.45
55	162	2.15	48.05	72.08	5.83	4.52	4.67	3.11
60	162	3.86	42.80	64.20	9.91	6.97	3.87	2.65
65	162	6.44	0.00	0.00	18.92	13.49	0.00	0.00

Females

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.11	152.97	233.65	0.00	0.00	0.00	0.00
25	117	0.11	102.90	157.17	0.16	0.13	0.09	0.10
30	131	0.16	86.24	131.72	0.21	0.18	0.12	0.13
35	144	0.27	74.38	113.60	0.41	0.34	0.24	0.25
40	150	0.44	61.86	94.49	0.61	0.51	0.36	0.37
45	157	0.71	50.92	77.78	0.82	0.68	0.48	0.50
50	162	1.04	38.80	59.27	1.50	1.23	1.11	1.13
55	162	1.37	36.30	55.44	5.47	4.43	2.32	2.35
60	162	1.75	29.18	44.58	11.52	9.30	2.38	2.40
65	162	2.25	0.00	0.00	20.73	16.76	0.00	0.00

Prudence in assumptions

We are required to include a degree of prudence within the valuation. This has been achieved in both the setting of contributions and assessment of funding position.

Contribution rates

- Employer funding plans have been set such that the likelihood the employer's funding target is met by the end of the funding time horizon is more than 50%. The actual likelihood varies by employer. Further detail is in the Funding Strategy Statement.

Funding position

- The Fund's investments have a 70% likelihood of returning at least the assumed return.

All other assumptions represent our "best estimate" of future experience.

The assumptions used in this valuation have been agreed with the Administering Authority and are set out in the Fund's Funding Strategy Statement dated March 2021.

Appendix 3 – Rates and Adjustments certificate

In accordance with regulation 60(4) of the Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2021 to 31 March 2024 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2021 and in Appendix 2 of our initial results report for the 2020 actuarial valuation dated November 2020. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole fund Primary and Secondary Contribution rates for the period 1 April 2021 to 31 March 2024. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

	Last Valuation 31 March 2017		This Valuation 31 March 2020	
Primary Rate (% of pay)	20.6%		22.1%	
Secondary Rate (%)	2018/19	-2.6%	2021/22	-4.0%
	2019/20	-2.6%	2022/23	-4.0%
	2020/21	-2.6%	2023/24	-3.5%

The required minimum contribution rates for each employer in the Fund are set out below.

Employer code	Employer/Pool name	Contributions currently in payment 2020/2021	Primary Rate % 1 April 2021 - 31 March 2024	Secondary Rate						Total Contribution Rate		
				2021/2022		2022/2023		2023/2024		2021/2022	2022/2023	2023/2024
				% of pay	£	% of pay	£	% of pay	£			
Scheduled												
Pool	Scottish Borders Council	18.0%	21.9%	-3.9%		-3.9%		-3.4%		18.0%	18.0%	18.5%
Scottish Borders Council Funding Pool												
11	Visit Scotland	18.0%	21.9%	-3.9%		-3.9%		-3.4%		18.0%	18.0%	18.5%
13	Borders College	18.0%	21.9%	-3.9%		-3.9%		-3.4%		18.0%	18.0%	18.5%
16	Scottish Borders Council	18.0%	21.9%	-3.9%		-3.9%		-3.4%		18.0%	18.0%	18.5%
24	AMEY	18.0%	21.9%	-3.9%		-3.9%		-3.4%		18.0%	18.0%	18.5%
21	Jedburgh Leisure Facilities Trust	18.0%	21.9%	-3.9%		-3.9%		-3.4%		18.0%	18.0%	18.5%
22	LIVE Borders	18.0%	21.9%	-3.9%		-3.9%		-3.4%		18.0%	18.0%	18.5%
Individual Employers												
19	Scottish Borders Housing Association	20.3%	31.3%	-11.0%		-10.5%		-10.0%		20.3%	20.8%	21.3%
27	CGI	21.1%	22.0%		£16,500		£16,500		£21,000	22.0% plus £16,500	22.0% plus £16,500	22.0% plus £21,000
28	South of Scotland Enterprise	20.6%	20.9%	0.2%		0.2%		0.7%		21.1%	21.1%	21.6%

Cost cap mechanism

As part of the public sector pension scheme reforms in the first half of the 2010s, a mechanism was put in place to protect employers from significant increases in future pension costs. The mechanism is symmetrical in its design – following a Cost Cap valuation, if the scheme is determined to have either a lower than intended cost or a higher than intended cost to employers, then action will be taken: either a change in the benefit structure for future benefit accrual or a change in employee contribution rates. The first Cost Cap mechanism for LGPS Scotland was as at 31 March 2017, however this has been put on hold until the McCloud judgement is resolved.

At the time of writing, there is no information available about the results of the 2017 Cost Cap valuation and whether a change in the benefit structure from 1 April 2020 may occur. The Fund has decided to increase contributions by a minimum of 0.5% of pay prior to 2024 as a partial allowance for any potential benefit increases. However, once the outcome of the Cost Cap valuation is known, the Fund may revisit contribution rates set to ensure they remain appropriate.

Further comments

- The Fund reserves the right to review the rates above following publication of the results of the Cost Cap valuation. If the outcome of that valuation results in an increase to benefits earned or a reduction in employee contributions, the above contributions may be revised prior to the next formal valuation.
- Contributions expressed as a percentage of payroll should be paid into Scottish Borders Pension Fund ("the Fund") at a frequency in accordance with the requirements of the Regulations;
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.

- Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions. If an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the Administering Authority, then their certified contribution rate may be reduced by the value of their insurance premium, for the period the insurance is in place.
- The certified contribution rates represent the **minimum** level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.

Signature:	[SIGNATURE]	[SIGNATURE]
Name:	Julie West	Natalie Alexander
Qualification:	Fellow of the Institute and Faculty of Actuaries	Associate of the Institute and Faculty of Actuaries
Firm:	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB	
Date:	23 February 2021	

RISK REGISTER UPDATE

Report by Executive Director Finance and Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2021

1 PURPOSE AND SUMMARY

1.1 **This report forms part of the risk review requirements of the pension Fund. It 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 the risks previously identified, 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. The revised Risk Register was subsequently approved by the Joint Pension Fund Committee and Pension Fund Board on 22 June 2020, with an update of the actions undertaken on 24 September 2020 and 11 December 2020.

1.4 Appendix 1 details the new risks added to the risk register.

1.5 Appendix 2 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 Committee:

(a) Notes the new risks in Appendix 1 identified since the last review;

(b) Notes the management action progress as contained in Appendix 2; and

(c) Agrees to a full risk review being undertaken in June 2021.

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". This requirement 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
- 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
- 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
- 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 During the review and update of the Funding Strategy Statement a number of new risks were identified. These are detailed in Appendix 1 for inclusion in the full risk register and detailed below

Risk No	Risk
1.12	Increasing effect of climate change on global economy
2.6	Deteriorating patterns of early retirements
2.7	Employer default
4.7	Changing demographics
6.6	Risk of cyber security breach

4.3 The progress of the individual management actions identified in the current risk register is detailed in Appendix 2.

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 2, and recommended for approval by the Committee and Board in this report, are designed to directly enhance the management of risks.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required 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**
No changes to the Scheme of Administration of Scheme of Delegation are required as a result of this report.

6 CONSULTATION

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

Approved by

David Robertson **Signature .....**
Executive Director Finance and Regulatory

Author(s)

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

Background Papers:
Previous Minute Reference: Pension Fund Committee and Pension Board, 11 December 2020

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

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

APPENDIX 1

Pension Fund - New Risks

							Original Risk			Controls		Current Risk		
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
1.12	Asset & Investment	Increasing effect of climate change on global economy	Changing consumer demand patterns	Changing consumer demand patterns results in obsolescence, impairment or stranding of assets. Resulting in reduced investment returns.	Ongoing	Pension Fun Committee/ Exec Dir Finance & Regulatory	3	4	12	Responsible Investment Policy in place and monitored. Only invest with Fund Managers who have strong ESG credentials. TREAT Review Responsible Investment Policy to set clearer Climate Change Strategy	Partially Effective	3	3	9
2.6	Employer	Deteriorating patterns of early retirements	Increased ill health retirements leading to employers requirement to fund strain on fund	Inability for employers to be able to fund ill health retirements strain on fund	ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	2	4	8	Ill health retirements monitored, requirement for employers to fund strain on fund include in revised Funding Strategy Statement	Partial Effective	1	2	2
2.7	Employer	Employer default	Employer ceasing to exist and bond/guarantee being insufficient to fund exit costs	Incurred deficit having to be covered by remaining employers	ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	2	3	6	Bonds and guarantees monitored on regular basis Annual meetings held with Employers to asses their position. All employers required as part of annual return to outline any upcoming structural changes within organisation which may effect pension fund position	Partial Effective	1	2	
4.7	Liquidity	Changing demographics	Increased early retrials, ill health retiral, withdrawal, 50:50 uptake, commutation marriage/partnership	Pressure on cash flow and funding equation	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	3	3	9	Monitoring of active numbers and cash flow All employers required as part of annual return to outline any upcoming structural changes within organisation which may have impact on pension fund.	Partially Effective	2	2	4

6.6	Regulatory & Compliance	Risk of cyber security breach	Security breach due to data hacking or malware incidents	Breach of GDPR, inability to process payments to pensioners, loss of data	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	5	4	20	Hosted environment for pension admin system Monitored and regularly improved firewalls Security installed on all hardware IT contractual requirements for all IT providers TREAT Continue engagement with IT providers, introduce annual assurance from providers of cyber security policy and adherence	Partially Effective	5	2	10

APPENDIX 2

Pension Fund - Risk Register actions updates

							Controls		Current Risk			Progress
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 4/3/21
1.4	Asset & Investment	Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels	Committee ignores advice provided by expert adviser. External adviser provides inappropriate/inaccurate/ insufficient advice to Committee/Officers.	Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates.	Ongoing	Pension Fund Committee/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	Training requirements being actioned as part of Training plan to ensure have required skills and knowledge to enable challenge.
1.9	Asset & Investment	Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap.	Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy	future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap.	Ongoing	Pension Fund Committee/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	Initial valuations results reported at 11 Dec meeting final sign off to take place 4 March, investment strategy review to commence after valuation signed off
2.2	Employer	Adoption of either an inappropriately slow or rapid pace of funding rates for different employers may result in improper management of the Fund and result in inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Ongoing	Pension Fund Committee/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 & SOSE 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	Initial valuations results reported at 11 Dec meeting final sign off to take place 4 March, investment strategy review to commence after valuation signed off
2.3	Employer	Failure of a Scheme Employer may lead to a shortfall in the funding levels of whole Fund resulting in increases for all other employers contributions	Scheme employer ceasing to operate	Shortfall in fund as a whole with increases required in all other employers contributions	Ongoing	Pension Fund Committee/Exec Dir Finance & Regulatory	Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey and CGI, and Council agreement in place for Live Borders; Guarantee in place with SG for SOSE; Contribution rates based on open/closed status of employer; Updated Admission Agreement and formal consideration of support at initial set up now implemented; Movement to closed scheme requires actuarial review, results then implemented. TREAT- Cessation action will be incorporated into Funding Strategy Statement	Effective	3	2	6	Following discussion with Fund Actuary Cessation actions need to be considered at same point as reviewing Funding Strategy Statement, consultation of revised FSS taken place during Feb with approval being requested 4 March

APPENDIX 2

Pension Fund - Risk Register actions updates

							Controls		Current Risk			Progress
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 4/3/21
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	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year. TREAT; undertake review of admission agreements and guarantees	Partial Effective	2	5	10	Review of Admission agreements and guarantees scheduled to commence in coming months in line with COVID safe office preparation (need to access office to get historical agreements from paper files), agree time line with Actuary who will undertake the review.
3.2	Resources & skills	Failure to provide appropriate training and support and/or secure Board/Committee Member engagement in Training Programme may lead to ineffective management of the Fund as a result of poorly informed decision making.	Availability of members to attend training; Inappropriate training programme.	Ineffective management of the Fund as a result of poorly informed decision making.	Ongoing	Pension Fund Committee/Exec Dir Finance & Regulatory	Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board TREAT - annual monitoring and reporting undertaken	Effective	3	3	9	Annual review completed and findings reported 22 June 2020. Annual training plan approved 22 June 2020 to address required training areas. All members on target to meet training requirement for 2020/21
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	Continual review of processes and procedural notes to ensure they are compliant with regulations and system requirements (Altair and Business World). Competency Framework implemented for all staff along with new appraisal process

APPENDIX 2

Pension Fund - Risk Register actions updates

							Controls		Current Risk			Progress
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 4/3/21
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	Continue to monitor advice and information from The Pension Regulator and Government bodies.
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 10 provides improved ability for homeworking; TREAT - in line with core HR risk review full business continuity review to be undertaken.	Effective	2	3	6	Work to commence on business continuity review with Altair a fully hosted solution Roll out of Windows 10 has been completed for all Pensions Admin Team
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	Annual assurance review requests scheduled to be issued November 2020.
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; Appraisal process implemented to identify training and development requirements. TREAT - Implementation of Competency Framework to all staff	Effective	2	2	4	Competency Framework implemented for all staff along with new appraisal process

APPENDIX 2

Pension Fund - Risk Register actions updates

							Controls		Current Risk			Progress
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 4/3/21
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. Government Actuary Department review and subsequent regulatory 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	Responding to all consultations and participating in all national groups. Executive Director Finance & Regulatory active member of Director of Finance group. Monitoring Scheme Advisory Board web site on monthly basis
6.3	Regulatory & Compliance	Failure to produce accounts, notices and publications correctly or on time resulting in inability to manage the fund effectively and compliantly.	Lack of capacity; Conflicting operational demands, including Transformational activity.	Accounts qualified by External Auditors; Referral to Pensions Regulator or Scheme Advisory Board	Ongoing	Exec Dir Finance & Regulatory	Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via Appraisal and attendance at appropriate training events. TREAT - Implementation of Competency Framework to all staff	Effective	2	2	4	Competency Framework implemented for all staff along with new appraisal process
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 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	Minutes of SAB tabled as meetings for information when available
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	Review meetings held with Northern Trust and Isio

PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2020

Report by Executive Director Finance & Regulatory

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

04 March 2021

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 31 December 2020, projections to 31 March 2021 and proposed budget for 2021/22.**

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 third quarterly monitoring report of the approved budgets.

1.4 The total expenditure to 31 December 2020 is £0.694m with a projected total expenditure of £6.906m against a budget of £6.906m.

1.5 The estimated budget for 2021/22 is estimated at £7.079m based on key assumptions detail in paras 4.4 to 4.6.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee:-

(a) Notes the actual expenditure to 31 December 2020; and
(b) Agrees the 2021/22 budget of £7.079m.

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 31 DECEMBER 2020

4.1 The table below shows the expenditure to 31 December 2020, projected out-turn to 31 March 2021 and current approved budget for 2020/21. The table also shows the proposed budget for 2021/22.

	Expenditure to 31 Dec 20 £000's	Projected to 31 March 21 £000's	2020/21 Budget £000's	2020/21 Variance £000's	2021/22 Budget £000's
Investment Management	332	6,198	6,198		6,420
Administration	237	408	408		378
Oversight & Governance	125	300	300		210
Total	**694**	**6,906**	**6,906**		**7,079**

4.2 Investment Management fees, which are billed direct, are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. The only fees incurred this way are Baillie Gifford and UBS. The third quarters investment management fees are not therefore included in the expenditure to 31 December 2020 totals.

4.3 Work continues to progress with Managers requesting quarterly returns based on the Cost Transparency Initiative (CTI). Managers are working towards providing the information in the requested format but a number of issues have occurred which mean the information is currently not robust enough to be used for quarterly monitoring purposes. Officers continue to work with Managers to improve this for future monitoring and for the year end accounts.

4.4 Based on the current Fund Managers and the continued implementation of the current strategic asset allocation the fees are estimated at £6,420k for 2021/22. This estimate includes an assumption of asset growth of 8%.

4.5 The Administration budget for 2021/22 is estimated to be £378k and includes an allowance of £25k to cover the additional IT and staffing impact occurring from recent class actions such as McCloud. The budget is overall less than 2020/21 due to one off IT costs included in 2020/21 budget for implementation of member self-service and the work on admission agreements.

4.6 The Oversight and Governance budget for 2021/22 is estimated at £281k, reduction from 2020/21 which included full triennial valuation costs. Estimate is based on the current Investment Consultant and may change subject to the outcome of the procurement.

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 11 December 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

SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL PLAN 2021/22

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

4 March 2021

---

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to present for approval the Internal Audit Annual Plan 2021/22 for the Scottish Borders Council Pension Fund to enable the Chief Officer Audit & Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.

1.2 The Public Sector Internal Audit Standards (PSIAS) requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk-based plans to set out the areas of Internal Audit activity, consistent with the objectives of the Pension Fund.

1.3 A fundamental role of the Internal Audit function is to provide senior management and members with independent and objective assurance, which is designed to add value and improve the organisation's operations. In addition, the CAE is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment.

1.4 The proposed Internal Audit Annual Plan 2021/22 for the Pension Fund in Section 4.2 sets out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process include a clear understanding of the organisation's functions, associated risks, and assurance framework.

1.5 There are resources currently in place to achieve the Internal Audit Annual Plan 2021/22 for the Pension Fund and to meet its objectives.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee and Pension Fund Board approve the Scottish Borders Council Pension Fund Internal Audit Annual Plan 2021/22.

3 BACKGROUND

3.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 (updated 2017). The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:

- Standard 2010 – Planning which states that "the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals"
- Standard 2020 – Communication and Approval which states that "the chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations."

3.2 Key components of the audit planning process include a clear understanding of the Pension Fund Committee and Board roles and responsibilities, priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the potential range and breadth of audit areas for inclusion within the plan, consistent with the organisation's goals. This exercise is informed by key developments at both a national and local level and other relevant background information.

3.3 The Internal Audit work for 2021/22 has been informed by the risks, controls and mitigation actions as set out within the Pension Fund's Risk Register to ensure that Internal Audit plans are risk-based and provide relevant assurance for the Pension Fund.

3.4 The Council's Executive Director Finance & Regulatory, Service Director HR and Communications, HR Shared Services Manager, and Pension and Investment Manager have been consulted to capture potential areas of risk and uncertainty more fully. These discussions will continue on a regular basis to ensure Internal Audit assurance meet the needs of Management and other key stakeholders of the Pension Fund.

3.5 Internal Audit resources are outlined in the Council's Internal Audit Annual Plan 2021/22 to be approved by SBC's Audit and Scrutiny Committee on 9 March 2021. A total of 5 days have been allocated to provide Internal Audit services to the Scottish Borders Council Pension Fund, which reflects the Council's contribution of corporate support resources.

3.6 Staff assigned to perform the Pension Fund Internal Audit work hold relevant professional qualifications and have the necessary experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to deliver the plan.

4 SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL PLAN 2021/22

4.1 In summary the Internal Audit work for 2021/22 is designed to encompass:

a) An appraisal of the operation of corporate governance and risk management arrangements;

b) A review of key controls including pension administration and financial management arrangements in place;

c) A review of performance against objectives, including relevant performance information.

4.2 The plan below gives an indication of the areas we plan to cover:

Category	Our planned audit approach and coverage within 2021/22
Internal Audit assurance on corporate governance and risk management	We will attend the Joint meetings of the Pension Fund Committee and Pension Fund Board to observe planning, approval, monitoring and review activity of Scottish Borders Council Pension Fund. We will assess the Pension Fund's corporate governance and risk management arrangements in place to deliver its objectives set out in its Business Plan. We will use the Pension Fund's Governance Policy and Compliance Statement (most recently presented within the Annual Report and Accounts 2019/20) as an integrated toolkit to test key elements to determine whether these are operating as described. We will consider and apply National Reports that give rise to introducing best practice arrangements or lessons learned from other organisations to enable Management to evidence improvements in practices on a continuous basis.
Internal Audit assurance on financial governance and key controls	We will use Internal Audit work over the systems and controls in place at Scottish Borders Council that cover the same systems for the Pension Fund to ensure transactions are valid, complete and accurate. Specifically the Business World ERP System Key Controls, an integration of 4 audits relating to the work streams Record to Report (core General Ledger and Management Reporting), Procure to Pay; HR/Payroll (including Pensioner Payments), and Sales to Cash. We will follow-up on progress on areas of improvement recommended in 2020/21 audit assurance work.
Internal Audit assurance on business plan improvements and developments	We will assess whether the Business Plan is aligned to Pension Fund priorities and objectives, and specifically review progress with the Implementation of self-service facility, and System improvements to support home working.

5 REPORTING OF INTERNAL AUDIT RESULTS

5.1 The Internal Audit Annual Plan 2021/22 for the Pension Fund includes sufficient work to enable SBC's Chief Officer Audit & Risk to prepare an annual independent and objective audit opinion on the adequacy of the arrangements for risk management, governance and control.

5.2 At the end of the year, the Internal Audit Annual Assurance Report 2021/22 for the Pension Fund will be presented to Management and to the Pension Fund Committee and Board, for governance and scrutiny purposes. The assurance report will include: the statutory audit opinion based on the Internal Audit work during the year; the results from each audit category outlining the risks, controls and conclusions; progress with implementation and outcomes of agreed improvement actions; and any recommendations that have been made, with the associated Management response, responsible owner and timescale for implementation.

5.3 The Internal Audit findings and annual opinion will be used to inform the Pension Fund's Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this assurance report.

6.2 **Risk and Mitigations**

The Pension Fund Risk Register was considered as part of the planning process. This report sets out the Internal Audit plan in section 4 that will provide assurance, including assurance on arrangements for managing risks, as part of the governance framework to manage the operation of the Pension Fund and reflects best practice.

6.3 **Integrated Impact Assessment**

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). It does not relate to new/amended policy/strategy and an integrated impact assessment is not an applicable consideration.

6.4 **Acting Sustainably**

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

6.5 **Carbon Management**

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

6.6 **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.

6.7 **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.

7 CONSULTATION

7.1 The Council's Executive Director Finance & Regulatory, Service Director HR & Communications, HR Shared Services Manager, and Pension and Investment Manager have been consulted to capture potential areas of risk and uncertainty more fully. These discussions will continue on a regular basis to ensure Internal Audit assurance meet the needs of Management and other key stakeholders of the Pension Fund.

7.2 The Council's Executive Director Finance & Regulatory, Chief Legal Officer (Monitoring Officer), Service Director HR & Communications, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey **Signature .....**
Chief Officer Audit & Risk

Author(s)

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

Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board, 10 March 2020

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

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

INFORMATION UPDATE

Briefing Paper by Executive Director Finance & Regulatory Services

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

04 March 2021

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 PENSIONS ADMINSTRATION SYSTEM

2.1 On 11 February 2021 Blackrock Long Term Private Capital have announced that they have reached an agreement to acquire Aquila Heywood, the provider of our current pensions administration system. The announcement received from Aquila Heywood stated that "the investment will enable Aquila Heywood to further grow its highly innovative suite of software solutions, supporting the current and future needs of a fast-growing customer base within the Pensions sector."

3 SCHEME ADVISORY BOARD

3.1 The Scheme Advisory Board (SAB) met on 10th December 2020. The agenda covered the following items, appendix 1 contains the bulletin of the meeting

- Cost Cap
- Cessation costs
- Structure review
- Fee transparency

3.2 A meetings were also held on 19th January and 17th February 2021 but no bulletins are currently available for these meetings.

4 TRAINING OPPORTUNTIES

4.1 PLSA seminar is due to take place virtually on 9-11 March 2021. Information has been circulated to all members and all those who have expressed an interested have been booked onto the seminar.

4.2 LGC seminar is due to take virtually 18-19 March 2021. Information has been circulated to all members and all those who expressed an interested have been booked onto the seminar.

5 FUTURE MEETINGS

5.1 The dates of future meetings are given below for information

Joint Pension Fund Committee and Pension Fund Board

- Thursday 10 June 2021
- Thursday 16 September 2021
- Tuesday 14 December 2021
- Thursday 17 March 2022
- Wednesday 29 June 2022

Pension Fund Investment Performance Sub Committee

- Tuesday 29 June 2021
- Monday 27 September 2021
- Monday 22 February 2022
- Tuesday 28 June 2022

Author(s)

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

Scottish Local Government Pension Scheme
www.lgpsab.scot

Scheme Advisory Board

Trade Union Side Secretary
Simon Watson
UNISON
Grampian Resource Centre
7, Alford Place
Aberdeen AB10 1YD
Tel: 01224 620624
s.watson@unison.co.uk

Employers Side Secretary
Jonathan Sharma
COSLA
Verity House,
19 Haymarket Yards
Edinburgh EH12 5BH
Tel: 0131 474 9269
jonathan@cosla.gov.uk

December 2020

BULLETIN

The Cost Cap

The cost of the LGPS in Scotland is calculated every three years based on a formula set by HM Treasury. If it is too high, or too low, then members contributions and benefits are reviewed. This calculation was delayed due to the McCloud judgement, but the SAB expects to receive an update in February. In several public sector pension schemes the "Cost Cap" has been breached at its lower end (meaning benefits or the accrual rate should be improved) and HM Treasury is now reviewing the formula. The SAB has been asked for its views to feed into the review and is consulting with advisors.

Cessation

The SAB agreed to issue advice to funds on employers wishing to leave the LGPS. The pension scheme is a benefit for members, and employers shouldn't be encouraged to withdraw, especially as where staff had been transferred out of local authority employment where they may have protected access to the LGPS. However where employers wish to leave, funds will be encouraged to look at different approaches that the regulations allow as long as they are efficient and effective for the scheme. These would include considering allowing the employer to cease future accrual and operate on a 'closed' on-going funding basis, and including this in the Fund's Funding Strategy Statement.

Funds should also engage with admitted bodies (if asked) about the extent and limitations of any guarantees, and provide cessation valuations in reports to employers on triennial valuations, including the 2020 one, and annually if requested.

Structures

Further work has been undertaken on getting expert advice on the future structure of LGPS funds, and a special SAB meeting has been set up for the start of January where it is anticipated final approval will be given to a recommended approach.

Fee Transparency

Having received feedback from Funds on the working of the new online fee transparency system, the SAB has approached its counterparts in England and Wales to explore how the system can be improved and developed.

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

Document is Restricted

This page is intentionally left blank