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PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 10 JUNE 2021

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA MICROSOFT TEAMS on THURSDAY, 10 JUNE 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,

3 June 2021

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 5 - 10) Minute of Meeting held on 4 March 2021 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Pension Fund Investment Performance Sub-Committee (Pages 11 - 12) To note the Minute of the Pension Fund Investment and Performance Sub-Committee held on 25 May 2021. (Copy attached).	1 mins
6.	Internal Audit Annual Assurance Report 2020/21 (Pages 13 - 16) Consider report by Chief Officer Audit & Risk. (Copy attached).	5 mins
7.	Governance Policy and Compliance Statement 2021 (Pages 17 - 36) Consider report by Executive Director Finance & Regulatory. (Copy attached).	5 mins
8.	Pension Administration Performance 2020/21 (Pages 37 - 44) Consider report by Service Director HR and Communications. (Copy attached).	5 mins
9.	Training Plan 2021/22 (Pages 45 - 60) Consider report by Executive Director Finance & Regulatory. (Copy	5 mins

	attached).	
10.	Business Plan 2021/22 - 2023/24 (Pages 61 - 84) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins
11.	Risk Register Update (Pages 85 - 100) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins
12.	Pension Fund Budget Out-Turn as at 31 March 2021 (Pages 101 - 104) Consider report by Executive Director Finance & Regulatory. (Copy attached).	5 mins
13.	Draft Annual Report 2020/21 (Pages 105 - 194) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins
14.	Information Update (Pages 195 - 202) Consider briefing paper by Executive Director Finance & Regulatory. (Copy attached).	5 mins
15.	Strategic Investment Review (Pages 203 - 252) Consider report by Executive Director Finance & Regulatory. (Copy attached).	30 mins
16.	Any Other Items Previously Circulated	
17.	Any Other Items which the Chairman Decides are Urgent	
18.	Items Likely To Be Taken In Private Before proceeding with the private business, the following motion should be approved:- “That under Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.”	
19.	Minute (Pages 253 - 254) Private Section of Minute of Meeting held on 4 March 2021 to be noted and signed by the Chairman. (Copy attached).	10 mins
20.	Pension Fund Investment Performance Sub-Committee (Pages 255 - 256) To note the Private section of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 25 May 2021 (Copy attached).	5 mins
21.	Quarter 1 Performance Update (Pages 257 - 296) Consider report by Isio. (Copy attached).	30 mins

22.	Infrastructure Performance (Pages 297 - 316) Consider report by Executive Director Finance & Regulatory. (Copy attached).	10 mins
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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.**
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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 A Daye, Mr M Drysdale, Mr M Everett, Ms K M Hughes, Ms L Ross and Ms H Robertson

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

MINUTES of Meeting of the PENSION FUND COMMITTEE AND PENSION BOARD held Via Microsoft Teams on Thursday, 4 March 2021 at 10.00 am

Present:- Councillors D Parker, S Aitchison, J Brown, G Edgar, C Hamilton, D Moffat, S Mountford S Scott, Mr D Bell, Mr M Drysdale, Mr M Everett, Ms K Hughes, Ms H Robertson Ms L Ross, Ms C Stewart.

Apologies:- Mr M Everett

In Attendance: Executive Director Finance & Regulatory, Pensions and Investment Manager, HR Shared Services Manager, Chief Officer Audit & Risk.

Also in Attendance: Democratic Services Officer (J Turnbull).
Mrs J West, Hymans Robertson, Mr A O'Hara and Mr A Singh, Isio.

1. MINUTE

There had been circulated copies of the Minute of the Meetings of 11 December 2020.

DECISION

NOTED for signature by the Chairman the Minute of the Meeting held on 11 December 2020.

2. PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 16 February 2021

DECISION

NOTED.

3. FUNDING STRATEGY STATEMENT

There had been circulated copies of a report by Executive Director Finance and Regulator proposing the revised Funding Strategy Statement following completion of the 2020 Triennial Valuation. The report explained the Pension Fund was 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 triggered a review and revision of the existing document. 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. The revised FSS, shown in Appendix 1 to the report 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. Within the 2020-21 Business Plan it was agreed that a Cessation Policy should be developed. Based on advice from the Fund Actuary it was determined that it was more appropriate that this be included within the FSS and this had now been incorporated in the revised version submitted for Committee Approval.

DECISION

AGREED to approve the Funding Strategy Statement contained in Appendix 1 to the report.

4. TRIENNIAL VALUATION AS AT 31 MARCH 2020

- 4.1 There had been circulated copies of a report by Executive Director Finance and Regulatory detailing the results from the Triennial Valuation for the Scottish Borders Council Pension Fund as at the 31 March 2020 which proposed the employer contribution rates for the next three financial years. The full Valuation Report, prepared by the Fund Actuary, Hymans Robertson, was contained in Appendix 1 to the report. The report concluded that the Scottish Borders Council Pension Fund had a funding level of 110% compared to the previous 2017 valuation of 114%. This equated to a funding surplus of £63m. The revised "Primary rate" calculated had increased from 20.6% to 21.9% and the surplus had 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 recommended the surplus be utilised and the rates increased in year 3 by 0.5% to mitigate for uncertainties. The report explained that there were a number of uncertainties, such as McCloud and the Cost Cap Mechanism, for which the impact to the Fund was unknown. The 0.5% common pool rate increase provided an element of mitigation. The full impact would be monitored for possible implications to the liabilities and consequent contribution rates. Scottish Borders Housing Association (SBHA) and CGI were both operating as closed funds with new employees unable to join the fund. Due to the increased risk with these employers, individual rates were recommended by the Actuary. South of Scotland Enterprise has been admitted to the Fund in 2020. In accordance with the admission agreement they were not within the Scottish Borders Council Pool. Therefore, individual rates had been calculated with a recommended increase in 2021/22 of 0.5% and further increase of 0.5% in 2023/24.
- 4.2 In response to questions the Pensions and Investment Manager, Mrs Robb, advised that with regard to the 3.8% investment assumption the Actuary had been prudent in determining this return. Mrs West added that this allowed for future different scenarios and an element of outperformance. Returns were anticipated to be in excess of 3.8% but because of uncertainties they made an allowance when setting the rate. Mrs West further advised that the Funding Strategy determined the contribution rates for each employer in the Fund and was based on the individual circumstances of each employer. With regard to CGI, the rate reflected that the CGI Fund was closed to new entrants and that payroll and contributions would decrease. The Pension Fund Committee and Pension Board thanked the Fund Actuary Hymans Robertson for the work preparing the Triennial Valuation.

DECISION

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

(b) AGREED:

- (i) the recommended Scottish Borders Council Pool rates of 18.0% for 2021/22 and 2022/23 and 18.5% for 2023/24;**
- (ii) the recommended rates for SBHA of 20.3% 2021/22, 20.8% for 2022/23 and 21.3% for 2023/24;**
- (iii) the recommended rate for CGI of 22% from 1st April 2021 with additional one off payments of £16,500 for 2021/22 and 2022/23 and £21,000 for 2023/24; and**
- (iv) the recommended rates for SOSE of 21.1% for 2021/22 and 2022/23 and 21.6% for 2023/24.**

5. RISK REGISTER UPDATE

With reference to paragraph 4 of the Minute of 11 December, 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 by 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 actions undertaken on 24 September 2020 and 11 December 2021. Appendix 1 to the report detailed the new risks added to the Risk Register. Appendix 2 detailed the risks within the approved Risk Register which have been identified management actions and the progress of these actions to date. Mrs Robb discussed the new risks detailed in Appendix 1 of the report explaining the actions proposed to mitigate each risk. The Chief Officer Audit & Risk, Mrs Stacey, advised that internal audit had carried out a review around the Council's systems in relation to cyber security, the findings of which had been reported to the September 2020 Audit & Scrutiny Committee and the Risk Register had recognised the scoring in place. With regard to the demographics' liquidity risk, Mrs Robb advised that this was also included and would be evaluated in the full risk review to be presented to the June meeting.

DECISION

- a) **NOTED:**
 - (i) the new risks in Appendix 1 identified since the last review;
 - (ii) the management actions progress as contained in Appendix 2, to the report; and
- b) **AGREED to a key risk review being undertaken in June 2021.**

6. PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2020

With reference to paragraph 6 of the Minute of 11 December, there had been circulated copies of a report by Executive Director Finance and Regulatory providing an update on the Pension Fund budget to 31 December 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 third quarterly monitoring report of the approved budgets. The total expenditure to 31 December 2020 was £0.694m with a projected total expenditure of £6.906m against a budget of £6.906m. The estimated budget for 2021/22 was estimated at £7.079m based on key assumptions detailed in paragraphs 4.4 to 4.6 of the report. In response to questions Mrs Robb advised that managers' fees were a fixed percentage rate applied to the value of the funds managed, their total fees therefore increased or decreased depending on Fund performance. Mrs Robb further advised that the Scheme Advisory Board (SAB) had been unable to estimate the amount required from the Fund to undertake the structure review.

DECISION

- (a) **NOTED the actual expenditure to 31 December 2020.**
- (b) **AGREED the 2021/22 budget of £7.079m.**

7. INTERNAL AUDIT ANNUAL PLAN 2021-22

There had been circulated copies of a report by the Chief Officer Audit & Risk presenting for approval the Internal Audit Plan 2021/22 for the Scottish Borders Council Pension Fund. The Plan enabled the Chief Officer Audit & Risk to provide the required audit opinion on the adequacy of the Scottish Borders Pension Fund's overall control environment. The report explained the Public Sector Internal Audit Standards (PSIAS) required 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. A fundamental role of the

Internal Audit function was to provide senior management and members with independent and objective assurance, designed to add value and improve the organisation's operations. In addition, the CAE was also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment. The proposed Internal Audit Annual Plan 2021/22 for the Pension Fund in Section 4.2 of the report set out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process included a clear understanding of the organisation's functions, associated risks, and assurance framework. There were resources currently in place to achieve the Internal Audit Annual Plan 2021/22 for the Pension Fund and to meet its objectives. In response to a question regarding cyber security, Mr Angus advised that pension administration used Aquila Heywood and Business World, both of which included disaster recovery and business continuity in their respective systems.

DECISION

AGREED to approve the Scottish Borders Council Pension Fund Internal Audit Annual Plan 2021/22.

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 Pensions Administration System

Mr Angus advised that Aquila Heywood had been taken over by Blackrock Long Term Private Capital.

8.3 Scheme Advisory Board

The Appendix to the briefing paper contained the bulletin from the SAB meeting held on 10 December 2020, and provided updates on Cost Cap, cessation costs, structure review and fee transparency. The Chairman, Councillor Parker, advised the SAB had delegated a sub-group to appoint a specialist to lead on the future structure of LGPS funds. Councillor Mountford added that with regard to cessation, the SAB Working Group had made some recommendations and the Unions were in discussion with the Working Group.

8.4 Training Opportunities

Mrs Robb gave an update on future training events: The PLSA seminar would take place on 9-11 March. Mrs Robb asked that anyone attending the meeting tested the link received, prior to the seminar. The LGC Seminar would take place on 18-19 March and a link to join the Seminar would follow.

8.5 Future Meetings

Joint Pension Fund Committee and Pension Board had been scheduled for:

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

Pension Fund Investment Performance Sub-Committee had been scheduled for:

- Tuesday, 29 June 2021.
- Monday, 27 September 2021
- Monday, 27 February 2021
- Tuesday, 28 June 2022

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. **MINUTE**
The Committee noted the Private Minute of the meetings of 11 December 2020.
11. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**
The Committee considered a report by the Executive Director Finance & Regulatory and approved the recommendations
12. **QUARTER PERFORMANCE UPDATE**
The Committee considered a private report by Isio.
13. **PROCUREMENT UPDATE - INVESTMENT ADVISOR**
The Committee considered a report by the Executive Director Finance & Regulatory and approved the recommendations.

The meeting concluded at 11.45 am.

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**SCOTTISH BORDERS COUNCIL
PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**

MINUTE of Meeting of the PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE held Via Microsoft Teams on Tuesday, 25 May 2021 at 10.00 a.m.

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

1. CHAIRMAN

In the absence of Councillor Parker, Councillor Mountford chaired the meeting.

2. MINUTE

The Committee noted the Minute of the meeting of 18 February 2021.

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 18 February 2021.

5. SCOTTISH LGPS PEER GROUP ANALYSIS

The Sub-Committee noted the position.

6. INVESTMENT STRATEGY REVIEW

The Sub-Committee agreed a report be submitted to the joint Pension Fund Committee and Pension Board.

The meeting concluded at 11.25 a.m.

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SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2020/21

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

10 June 2021

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2020/21, which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report on the adequacy and effectiveness of the Pension Fund's governance, risk management and internal controls to support the preparation of the Pension Fund's Governance Compliance Statement.**
- 1.3 To meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2020/21 includes the required Internal Audit annual opinion, provides details of the Internal Audit activity during the year to support the opinion, and states the conformance of the Council's Internal Audit service with the PSIAS.**
- 1.4 The Chief Officer Audit & Risk's opinion is that the systems of internal control operating within the Scottish Borders Council Pension Fund during 2020/21 are adequate, and governance and risk management arrangements are effective.**
- 1.5 The independent assurance opinion has been incorporated within the Pension Fund's Governance Compliance Statement within the Annual Report and Accounts for the year to 31 March 2021.**

2 RECOMMENDATIONS

- 2.1 It is recommended that the Joint Pension Fund Committee and Pension Fund Board consider the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2020/21 and provide any commentary thereon.**

3 BACKGROUND

- 3.1 The Joint Pension Fund Committee and the Pension Fund Board approved the Internal Audit Annual Plan 2020/21 for the Scottish Borders Council Pension Fund at its meeting on 10 March 2020. The Internal Audit Annual Plan sets out the range and breadth of audit areas and sufficient audit activity to enable the Chief Officer Audit and Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
“The chief audit executive [SBC’s Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.
The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

4 SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2020/21

- 4.1 The Chief Officer Audit & Risk’s opinion is that the systems of internal control operating within the Scottish Borders Council Pension Fund during 2020/21 are adequate, and governance and risk management arrangements are effective.
- 4.2 During 2020/21 the Internal Audit work included:
- 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.
- 4.3 The Fund has effective governance arrangements in place through the joint meetings of the Pension Fund Committee and the Pension Fund Board that support scrutiny and transparency of decisions made. A Skills and Knowledge self-assessment is carried out annually by Members, a Training Plan is proposed to meet those needs, and Members’ participation in training events is monitored to ensure Training policy commitments are met. Risk Management is fully embedded into the culture of the Pension Fund with evidence of risk deliberations in decision-making and regular reviews / updates of the Pension Fund risk register being carried out and reported to the joint meetings of the Committee and Board to demonstrate appropriate scrutiny and oversight of risk management.
- 4.4 Internal Audit work on Business World ERP System Key Controls, the findings from which were reported in Executive Summary format to the Council’s Audit and Scrutiny Committee on 10 May 2021, included the testing of Pensioner Payroll payments. Specifically this confirmed that comprehensive assurance can be placed on key controls and processes to ensure that payroll transactions are valid, complete and accurate.

- 4.5 Best practice suggested that having a Business Plan for the Pension Fund was a good way of demonstrating compliance with the "Myners Principle" relating to effective decision making. The Business Plan 2020/21 to 2022/23 for the Pension Fund was approved by the Joint Pension Fund Committee and Board on 22 June 2020. It identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund. A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Joint Pension Fund Committee and Board meeting on 11 December 2020. Quarter Performance Updates are presented in private by the Investment Advisor at the joint Committee and Board meetings. Pension Administration Performance is reported annually to the joint Committee and Board for its inclusion in the Fund's Annual Report and Accounts.
- 4.6 The Internal Audit Annual Assurance Report 2020/21 has been used to inform the Pension Fund's Annual Governance Statement 2020/21, and the Chief Officer Audit & Risk's independent assurance opinion has been incorporated within the Pension Fund's Governance Compliance Statement within the Annual Report and Accounts for the year to 31 March 2021.
- 4.7 The 2020/21 annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) demonstrates sufficient evidence that the Council's Internal Audit section conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this assurance report.

5.2 Risk and Mitigations

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

5.3 Integrated Impact Assessment

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

- 6.1 The Internal Audit Annual Assurance Report 2020/21 has been used to inform the Pension Fund's Annual Governance Statement 2020/21, and the Chief Officer Audit & Risk's independent assurance opinion has been incorporated within the Pension Fund's Governance Compliance Statement within the Annual Report and Accounts for the year to 31 March 2021.
- 6.2 The Council's Executive Director Finance & Regulatory, Chief Legal Officer (Monitoring Officer), Service Director HR and Communications, Clerk to the Council, Pensions & Investments Manager, HR Shared Services Manager, and Communications team have been consulted on this report to accept the findings of the Internal Audit work.

Approved by

Jill Stacey
Chief Officer Audit & Risk

Signature

Author(s)

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

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Joint Pension Fund Committee & Board 22 June 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

GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2021

Report by Executive Director Finance and Regulatory Services

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

10 June 2021

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. It also requests approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2020/21.**
- 1.2 Appendix 1 contains the revised Governance Policy and Compliance Statement for the Pension Fund 2020.
- 1.3 The Governance Compliance Statement for 2020/21 is included in Appendix B to the policy and demonstrates that the Pension Fund is in full compliance with published best practice guidance.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the revised Governance Policy and Compliance Statement 2021 is approved and the Governance Compliance Statement is agreed for inclusion in the Pension Fund Annual Report and Accounts 2020/21.**

3 BACKGROUND

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

4 GOVERNANCE POLICY AND COMPLIANCE STATEMENT

- 4.1 A review of the Governance Policy was undertaken during 2020/21 and resulted in only minor changes. The revised Policy and Statement are contained in Appendix 1.
- 4.2 Para 4.4 amended to reflect South of Scotland Enterprise replacing Scottish Borders Housing Association as Employer representative on the Pension Fund Board.
- 4.3 Para 10.2 updated to remove the hard copy publication of the Annual Report being replaced with an electronic version provided to all schedules and admitted bodies
- 4.4 Appendix A has been updated to remove Visit Scotland as a scheduled body following the full transfer of members to Lothian Pension Fund.
- 4.5 Appendix A has been updated to include South of Scotland Enterprise as an admitted body.
- 4.6 Appendix A has been updated to reflect movement of Lothian and Borders Community Justice Authority from active admitted body to admitted body with deferred and retired members only.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this proposal.

5.2 Risk and Mitigations

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

5.3 Integrated Impact Assessment

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

- 6.1 The Chief Legal Officer (Monitoring Officer), the Chief Officer Audit and Risk, the Service Director HR and Communications, the Clerk to the Council and Communications team have been consulted and their comments have been incorporated into the final report.

Approved by

David Robertson

Executive Director Finance & Regulatory

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Committee, 22 June 2020

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

Contact us at Pension & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 PSA

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SCOTTISH BORDERS COUNCIL PENSION FUND

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

2021

Finance
Chief Executive
Version: 2021
draft: Pension Fund Committee 10June 2021

Introduction

This Statement documents the governance arrangements for the pension scheme administered by Scottish Borders Council. This version of the Governance Policy and Compliance Statement was approved by the Pension Fund Committee on 22 June 2020.

1. Administering Authority

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

2. Regulatory Framework

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

3. Pension Fund Committee

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

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

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

Convener

Four members of the Administration

Two members from the Opposition

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

- c) Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
 - d) Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
 - e) Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
 - f) Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.
- 3.13 It is anticipated that the Investment Sub-Committee will meet at least every six months and that the Chairman will be the Chairman of the Pension Fund Committee.
- 3.14 From time to time, the Committee may establish a further additional Sub-Group to address a specific issue or need. Any such Sub-Group will be chaired by a member of the Committee and the remaining membership of the Sub-Group will be appropriate to the purpose and may therefore include other members of the Committee. The minutes and decisions of these sub-groups will be presented to the Committee for noting and agreement.

4. Pension Board

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

4.2 The Objectives of the Board are as follows:

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

- a) Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
 - b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
 - c) such other matters as the regulations may specify .
- 4.3 The Board also has the remit to determine the areas they wish to consider including, amongst others:
- a) Reports produced for the Pension Fund Committee;
 - b) Seek reports from the Scheme Manager on any aspect of the Fund;
 - c) Monitor investments and the investment principles/strategy/guidance;
 - d) The Annual Report and Accounts for the Fund;
 - e) External voting and engagement provisions in relation to investments;
 - f) Pension Fund Administrative Strategy and associated performance;
 - g) Actuarial reports and valuations;
 - h) Funding Strategy Statement and associated policy; and
 - i) Any other matters that the Board deems appropriate within the responsibilities set out in 4.2 above.
- 4.4 The Board will consist of eight members and will consist of equal numbers of trade union representatives and employer representatives. The Board's current membership is as follows:

Employer Representatives	Borders College Scottish Borders Council South of Scotland Enterprise (SOSE) Borders Sport & Leisure Trust (LIVE Borders)
Trade Union Representatives	Unison – 2 members Unite – 1 member GMB – 1 member

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

5. Meetings

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

6. Administration and Management of the Fund

6.1 Executive Director Finance & Regulatory

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

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

6.3 Service Director Human Resources and Communications

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

7. Professional Advisers and External Service Providers

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

8. Internal and External Review

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

9. Risk Management

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

10. Access to Information

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

11. Review and Compliance with Best Practice

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

Appendix A

Scottish Borders Council Pension Fund

Scheduled and Admitted Bodies

Scheduled Bodies

- Borders College
- Scottish Borders Council

Admitted Bodies

Active Admitted Bodies

- Amey Community Limited
- BC Consultants
- Gala Youth Project
- Jedburgh Leisure Facilities Trust
- Scottish Borders Housing Association (closed to new members)
- LIVE Borders
- CGI
- South of Scotland Enterprise (SOSE)

Admitted bodies with Deferred or Retired Members only

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

Appendix B

GOVERNANCE COMPLIANCE STATEMENT

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

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

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

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

Committee Membership and Representation

A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent	Yes	The Pension Board and Pension Fund Committee meet jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Pension Board. The Independent Investment Consultant, Finance and HR Officers also attend in an advisory capacity.
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Principle		Full Compliance	Comments
	professional observers, and (iv) expert advisors (on an ad-hoc basis)		
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training. They are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June). The Board was established by Council on 2 April 2015. The Scheme of Administration for the Pension Fund Committee, and the Pension Board Constitution, provide for joint meetings, with equal rights to receive papers and access meetings.
Selection and role of lay members			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected Members this is part of the Council's Code of Governance along with the Members' induction programme. In addition, the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within six months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of the Council's Code of Governance requires the declaration of Members' interests for all committees as a standard agenda item.
Voting			
A	The policy of individual administering authorities on voting rights is clear and	Yes	This is set out in the Council's Scheme of Administration and the Pension Board's Constitution

Principle		Full Compliance	Comments
	transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.		
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	Members' expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of training related expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The training policy for all members of the Pension Board and Pension Fund Committee is approved annually at the joint meeting in June.
Principle		Full Compliance	Comments
C	The administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Annual Training Plan produced and implemented with logs of training attendance maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or	Yes	The joint meetings of the Pension Fund Committee and Pension Board are quarterly.

Principle		Full Compliance	Comments
	committees meet at least quarterly		
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the main committee dates.	Yes	The Investment Sub-Committee meets every four months between the joint Committee/Board meetings.
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	The Pension Board formally provides for stakeholders' engagement.
Access			
A	Subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members as detailed in the Scheme of Administration.
Scope			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out the Committee as having a remit which covers all matters relating to the Council's role as Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.

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

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2010 1.0	Creation of Governance Statement	24 February 2010	L Mirley
2010 1.1	Final Draft for Pension Fund Sub-Committee	2 March 2010	L Mirley
2010 2.0	Sub-Committee Approved Version	11 March 2010	L Mirley
2011 1.0	Final Draft for Pension Fund Sub-Committee and Annual Report	30 August 2011	L Mirley
2012 1.0	Updated for amendment to Scheme of Administration and update of Pension Fund Annual Report and Accounts 2011/12	12 June 2012	L Mirley
2013 1.0	Final Draft to reflect proposed changes to Scheme of Administration	18 June 2013	L Mirley
2013 2.0	PFC approved version	19 June 2013	K Robb
2014 1.0	Final Draft for Pension Fund Committee and Annual report.	17 June 2014	K Robb
2015 1.0	Final Draft for Pension Fund Committee updated to reflect the introduction of Pension Boards	1 June 2015	L Mirley
2016 1.0	Final draft for Pension Fund Committee updated to reflect post implementation of Pension Board	05 May 2016	K Robb
2017 1.0	Final draft for Pension Fund Committee updated to reflect Pension Boards fully	21 March 2017	K Robb
2018 1.0	Final draft for Pension Fund Committee updated to reflect website	14 June 2018	K Robb
2019.1	Final draft for Pension Fund Committee updated to reflect changes in governing legislation and new actuary	13 June 2019	K Robb
2020.1	Draft for Pension Fund Committee to reflect title changes	22 June 2020	K Robb
2020.1	Draft for Pension Fund Committee to reflect change of Board members and changes to admitted bodies	10 June 2021	K Robb

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

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PENSION ADMINISTRATION PERFORMANCE 2020/21

Report by Service Director HR and Communications

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

10 June 2021

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the Pensions Administration Performance for 2020/21 and requests the Committee's approval of its inclusion in the Annual Report for the Fund.**
- 1.2 **Appendix 1** contains the Pensions Administration Performance for 2020/21 as it will be included in the Fund's Annual Report and Accounts.
- 1.3 During 2020/21 all payments, lump sums and monthly pension, were made on time.
- 1.4 Performance has remained at the expected high standard, which is testament to the dedication of the staff within the Pensions Administration Team, having coped with the move to homeworking and adopting new working practices as a result of the global pandemic.
- 1.5 The Annual Benefit Statements were issued in advance of the 31 August deadline in all instances.
- 1.6 The annual Employer Liaison Meeting was held as a virtual meeting in March due to the continued COVID19 restrictions. The event was well attended with representatives from the majority of the Fund Employers. Updates were provided on Investments, Administration and the Fund Actuary gave a presentation on the new accounting report requests.
- 1.7 Due to the continued COVID19 situation, with staff working predominantly from home, no payslips have been issued to pensioners, however online access has been promoted, this along with information on the application of the Pensions Increase have been published on the Pension Fund Website. The annual P60's have been issued in accordance with the statutory timelines.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee:-**
 - (a) **Notes the Pension Administration Performance for 2020/21 as set out in Appendix 1 and approves its inclusion in the Pension Fund Annual Report and Accounts 2020/21;**

3 BACKGROUND

- 3.1 It is a requirement of the current LGPS Regulations and best practice that the Pension Fund maintains a Pensions Administration Strategy. At the joint meeting of the Committee and Board on 24 September 2020 the latest version of the Pension Administration Strategy for the Fund was approved.
- 3.2 In accordance with the Pension Administration Strategy a number of administration function performance measures were introduced to evaluate the performance of both the Fund and Employers.
- 3.3 A further requirement is that the performance against the Strategy is reported in the annual Report and Accounts for the Fund.

4 PENSIONS ADMINISTRATION PERFORMANCE 20/21

- 4.1 **Appendix 1** contains the Pensions Administration Performance Report for 2020/21 as it will be included in the Fund's Annual Report and Accounts.
- 4.2 Performance has remained at a high standard throughout the reporting year. This is testament to the dedication of the staff within the team, having coped with the COVID restrictions and the move towards homeworking. The Employers within the Fund are continuing to provide information in the expected timely manner with information on Starters, Leavers and Changes being received on a monthly basis.
- 4.3 The Pensions Team were able to comply with the legislative requirement to issue annual benefit statements, to all Active and Deferred scheme members, and did so by 24 August 2020 ahead of the 31 August deadline. There were 7,067 statements issued this year, an increase from 6,760 in 2019. This was achieved during the first lockdown period, with staff attending their normal workplace, whilst the majority worked from home, in order to ensure these deadlines were met.
- 4.4 During 2020/21 it was agreed that the Pensions Administration Team would focus all efforts on ensuring the statutory elements of the service, as highlighted by the Pensions Regulator, continued to be provided, with all payments to pensioners being issued on time. As a result there was a deviation from the normal recording of queries received from previous years.

The 79 queries that were recorded in the log were all responded to within the timelines stated in the Pensions Administration Strategy. The team received 3,893 emails into the generic pensions mailbox during 2020/21. Unfortunately it is not possible to provide the split into types of queries as previous years.

With homeworking continuing for the time being the recording of queries and response times is something that will need to be considered. There is a continued commitment from the team members to adhere to the response timelines and this will have no detrimental impact on the service that is being provided to scheme members, only the reporting of figures within this report.

4.5 Employer Performance Measures

During 2020/21 there were no instances where payments were received after the deadline.

4.6 Administering Authority Performance Measures

The key performance targets are set out in the **Appendix 1**. The performance achieved this year was very similar to the previous reporting year. The processing of Transfers is an area that we continue to look to make improvements towards the 20 day target we have set. However, in all cases we met the legal requirement to carry out the transfer before the statutory six month deadline.

- 4.7 During 2020/21 the Employer Liaison meeting was held as a virtual meeting with representatives from the majority of employers attending. This years meeting provide an update on Investment performance along with the upcoming requirements for year end returns and action to be taken for the year ahead. We also took the opportunity to outline the Administrative challenges and that it was likely that we would require assistance from employers with regard to the McCloud remedy. Additionally, employers were made aware of our plans to be implementing Members Self Service.

In addition to the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years payroll.

Consideration will need to be given on an annual basis for the best format of the annual meeting going forward, whilst a face to face session is much more interactive an online meeting allows employers to join such events with less drain on time and resource away from the day job.

- 4.8 To date there have been 97 pensioners signed up for online payslips an increase from 18 in the previous year report. When we have communication with pensioners we make them aware that this is an available option for viewing payslips, ordinarily we only print when there is a variance in excess of £5.00 from the previous period.

In preparation for the launch of Members Self Service we are collecting email addresses for all active members as a priority. With steps being taken to collect for deferred and pensioners when corresponding with them to enable a move towards communications being delivered in an electronic means, yet being mindful of the demographic and the need to retain traditional alternatives where appropriate. Meeting the Council's Fit for 2024 agenda to make use of technology wherever possible.

- 4.9 During 2020/21, 43,154 payments were processed, an increase from 41,744 in 2019/20, to pensioners for a total of £18,643m in net payments. In addition to this, 161 payments were also processed, an increase from 146 payments in 2019/20, to pensioners who now reside overseas for a total of £75,881, these payments are processed via Western Union, providing pensioners with a cost effective means of transferring a sterling pension payment into the appropriate local currency.

- 4.10 Due to the continued COVID19 situation, with staff working predominantly from home during the reporting period, no payslips have been issued to pensioners, however online access has been promoted through Business World, this along with information on the application of the Pensions Increase have been published on the Pension Fund Website. The annual P60's were issued in accordance with the statutory timelines.

4.11 Employer Contribution Rates

The following table outlines the employer contribution rates that are effective from 1st April 2021 in line with the previous triennial valuation.

Employer	Employer Contribution %
Borders College	18.00
Scottish Borders Council	18.00
AMEY	18.00
CGI	22.00 plus £16,500
Live Borders	18.00
Jedburgh Leisure Facilities Trust	18.00
Scottish Borders Housing Association	20.30
South of Scotland Enterprise	21.10

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this report.

5.2 Risk and Mitigations

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

5.3 Integrated Impact Assessment

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

6.1 The Council's Executive Director Finance & Regulatory, Chief Legal Officer (Monitoring Officer), the Chief Officer Audit and Risk and the Clerk to the

Council have been consulted and any comments have been incorporated into the final report.

Approved by

Clair Hepburn **Signature**
Service Director HR and Communications

Author(s)

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

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Board 24 September 2020

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APPENDIX 1

PENSION ADMINISTRATION PERFORMANCE 2020/21

In accordance with the Pension Administration Strategy, approved 24 September 2020, the following performance measures have been compared against the targets set within the said strategy document.

Employer Performance Measures

Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	681	100%
Change notification – within 20 days	671	100%
Retirement info – at least 20 working days before	237	100%
Early leaver notification – within 20 working days	582	100%
Death in service notification – within 10 working days	6	100%

Contribution Payments

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

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

There were no late payments received during 2020-21. Visit Scotland shows nine payments as they were transferred from the Scottish Borders Council Pension Fund to Lothian Pension Fund on 1st January 2021.

Administering Authority Performance Measures

Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	50	20 days	58.00%
Estimates – Transfer Out	31	20 days	35.48%
Estimate – All Other	1,155	10 days	87.27%

With the move to homeworking due to the pandemic staff were focusing on ensuring payments were made on time and adopting to new working practices it was accepted that it was not going to be possible to record all queries received as in previous years. Therefore, it has not been possible to provide the split as previous. We also saw a move towards queries coming in via email, which is reflected in the table below.

Type of Query	Volume	Target	%age Met
Phone Calls - logged	79	5 days	100%
Annual Benefit Statement	279	20 days	100%
Emails to pensions@scotborders.gov.uk mailbox	3,614		Not measured
Total	3,972		

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	2 nd March 2021
Benefit Statements	by end of August	24 th August 2020

The sixth liaison meeting, held virtually, with all Admitted and Scheduled Bodies was held during 2020/21 and covering the changes that had been made to the annual reporting for the 2020/21 year end and afforded the employers the chance to ask questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

Key Administration Tasks

Task	Total received
New entrants	679
Early leavers	468
Retirements	237
Deaths in service	6
Deaths in deferment	2
Deaths in retirement	91
New Widows(ers), Child Pensions	50
Estimates	1,155
Pension credit members	0



TRAINING PLAN 2021/22

Executive Director, Finance and Regulatory Services

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

10 June 2021 Executive

1 PURPOSE AND SUMMARY

- 1.1 **This report compares the actual 2020/21 attendance for Pension Fund Committee and Board members to the requirements detailed in the current Training Policy approved in June 2019. The report proposes key areas of training for 2021/22 in line with the policy and based on the Skills Knowledge assessment recently undertaken.**
- 1.2 In line with the Training Policy at Appendix 1, the Pension Fund Committee and Pension Fund Board members are required to undertake an annual knowledge and skills self-assessment to identify the key areas for the future years training plan.
- 1.3 The Training Knowledge and Skills Assessments were undertaken in April 2021 and scores received are summarised in the table in paragraph 5.1 and in more detail in Appendix 2.
- 1.4 The proposed Training for 2021/22 will focus on Financial Markets and Products, Investment performance & risk management, Pension Administration and General Pension Fund Regulatory environment. Members are strongly encouraged to actively participate in all training events to demonstrate their commitment to enhancing the governance of the Pension fund and to support effective decision making.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Joint Pension Fund Committee and Board:**
 - (a) **Notes the Training Policy at Appendix 1**
 - (b) **Notes the outcome of the 2020/21 training programme and the attendance levels for training and meetings**
 - (c) **Notes the outcome of the Knowledge and Skills Self-Assessment for 2021/22; and**
 - (d) **Approves the Training areas for 2021/22 set out in para 6.2 and agrees that all members should prioritise attendance at training events wherever practicable.**

3 BACKGROUND

- 3.1 The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority). The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. It is a requirement of the LGPS Regulations that the Pension Fund maintains a training policy and monitors adherence to this policy on an annual basis.
- 3.2 The best practice guidance indicates that the annual report should include an assessment of the performance of the Committee and Board in terms of:
 - (a) Attainment of the standards set down in CIPFA's knowledge and skills framework, and
 - (b) Achievement of required training outcomes
- 3.3 The current Training Policy (at Appendix 1) was approved on 22 June 2017 by the Pension Fund Committee and Pension Fund Board and has subsequently been noted annually in June by the Committee and Board at the joint meetings when the Training Plan was considered. One of the key elements of the Training Policy is that all Members of the Pension Fund Committee and the Board commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision-making role. Officers maintain a log on behalf of members to demonstrate the training activities.

4 TRAINING ANNUAL UPDATE

- 4.1 The 2020/21 training programme approved at the 22 June 2020 Pension Fund Committee and Board covered the following:
 - (a) Financial markets and investment products
 - (b) Investment Performance & risk management
 - (c) Pension Administration
 - (d) General Pension Fund Regulatory environment
- 4.2 All training events were open to members of the Pension Fund Committee and Pension Fund Board.
- 4.3 The table over shows the six training events offered and areas covered. All areas identified in the training plan approved on 22 June 2020 were covered by these events.

Organiser	Training Provided
Local Government Pension Scheme (Scot) Officers Group	Governance, Stewardship, Investments and work of Scheme Advisory Board
Local Government Pension Scheme (Scot) Officers Group	Actuarial valuations, Longevity and Pension Administration

Pension & Lifetime Savings Association	Stewardship, fiduciary management, COVID 19, Employer covenants, Pension Scheme Bill and ESG
Local Government Chronical	Investment issues and ESG
Pension & Lifetime Savings Association	Investment governance, ESG and investments.
Local Government Chronical	Investment issues and ESG

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

No of events	Committee Members	Board Members
	Number of Members	Number of Members
5	2	2
4	2	3
3	2	2
2	1	1
Less than 2	0	0
Total Members	7	8

- 4.5 All Members of the Pension Fund Committee and the Pension Fund Board have fully met the training requirements. Members are recommended to prioritise their attendance at training sessions wherever possible to ensure they can participate in the complicated activities of the Committee with the benefit of detailed knowledge imparted through these sessions.
- 4.6 The Training Policy, introduced in June 2017 the additional requirement for all Members of the Pension Fund Committee and Pension Fund Board to fully complete the Pension Regulators Trustees Toolkit within 6 months of taking up the role. The toolkit has been completed by all members of the Committee and Board.
- 4.7 Members are also required to attend at least two of the Joint Pension Fund Committee and Pension Fund Board meetings per year. The table below shows the attendance rates for both the Pension Fund Committee and Pension Fund Board Members. During 2020/21 an additional meeting was held to approve a response for a Scheme Advisory Boards consultation.

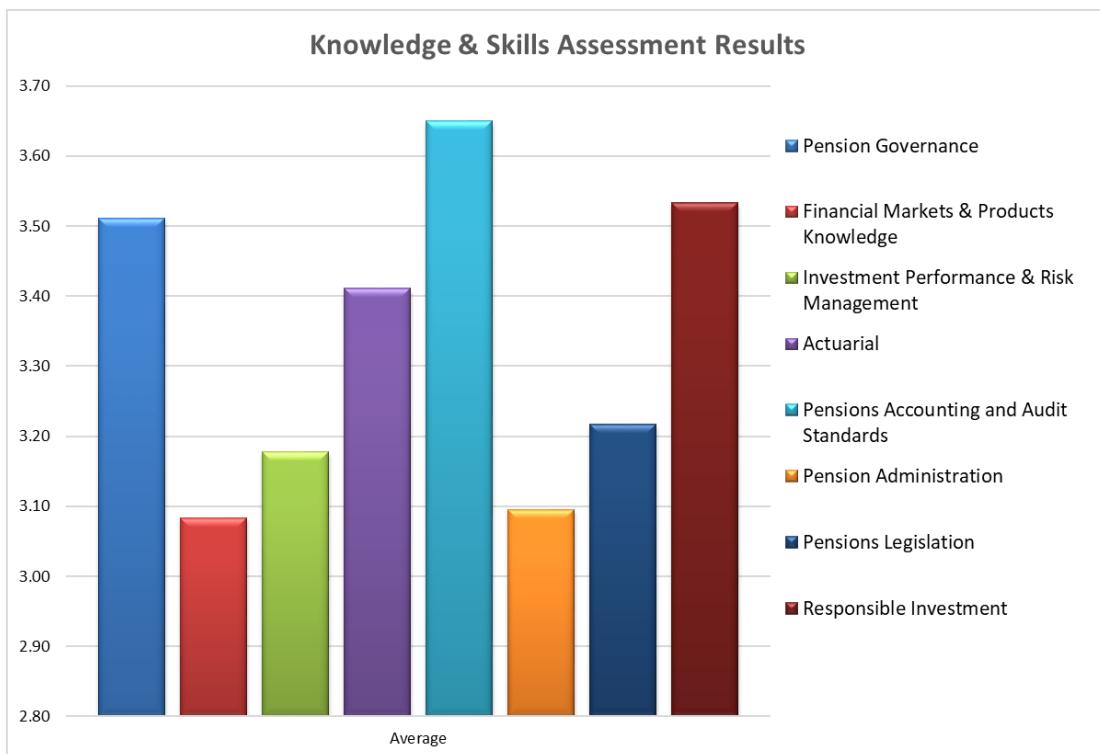
	Committee Members	Board Members
5 meetings	4	3
4 meetings	3	2
3 meeting	0	2
2 meetings	0	1

Less than 2 meetings	0	0
Total	7	8

- 4.8 All Members of the Pension Fund Committee and the Pension Fund Board have met the attendance requirement. Members of the Board and Committee have been reminded of their attendance requirements and the dates for the 2021/22 meetings have been circulated and are included quarterly in the information update.

5 TRAINING NEEDS ANALYSIS

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



- 5.2 The completed knowledge and skills assessment returns for 2021 shown a slight decline in the average overall score from 2020. This is due to new Board Members in 2021 and in 2020.

6 TRAINING PROGRAMME

- 6.1 The information contained in the returned knowledge assessment forms the basis for the training plan in 2021/22. Despite the training undertaken during 2020/1 members continued to note the requirement for more training in these areas and again therefore the planned programme of events in 2021/22 will focus on these high priority complex areas.

2021-22 training plan	
Topic	Training Objective
Financial Markets and Products	To increase understanding of current markets and investment products and also highlight new investment products and markets
Investment performance & risk management	To increase understanding of investments performance measurement.
Pension Administration	To increase knowledge and understanding of the pension administration function and key processes.
Pension legislation	To increase general knowledge and awareness of the regulatory environment for general Pensions.

- 6.2 Due to continuing COVID 19 and social distancing requirements some of the annual training events and seminars will remain as virtual events. Information on these events will be highlighted to all Committee and Board Members as they become known.
- 6.3 The Local Government Pension Scheme (Scot) Officers Group will be arranging the 2021 training event to cover many of the areas identified above. Due to ongoing COVID19 restrictions the event will be held as a virtual event.
- 6.4 The formal and virtual training events will also be supplemented by the continuation of the informal meetings prior to the Pension Fund Investment and Performance Committee meetings to allow members to be properly briefed by officers and the independent investment adviser on relevant matters prior to the meeting with the Fund Manager.
- 6.5 Additional external training opportunities that occur during the year will augment the proposed training programme. The Pension and Investment Manager will highlight these to the Pension Fund Committee and the Board for agreement on relevance and for the nominations of attendees.

7 IMPLICATIONS

7.1 Financial

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

7.2 Risk and Mitigations

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

7.3 Integrated Impact Assessment

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

7.4 Acting Sustainably

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

7.5 Carbon Management

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

7.6 Rural Proofing

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

7.7 Changes to Scheme of Administration or Scheme of Delegation

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

8 CONSULTATION

- 8.1 The Chief Legal Officer (Monitoring Officer), the Chief Officer Audit and Risk, the Service Director HR and Communications, the Clerk to the Council and Communications team have been consulted and their comments have been incorporated into the final report.

Approved by

David Robertson

Executive Director Finance & Regulatory

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: 22 June 2020 - Pension Fund Committee and Pension Fund Board

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SCOTTISH BORDERS COUNCIL PENSION FUND

TRAINING POLICY

Finance
Chief Executives Department
Version: Final Approved 13 June 2019

1. Introduction

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

2. Myners Principles

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

progress made.”¹

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

3. Governance Compliance

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

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

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

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

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

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

4. Training

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

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

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

5. Reporting and Review Arrangements

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

6. Reimbursement of Expenses

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

APPENDIX A

CIPFA Knowledge and Skills Framework

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

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

VERSION CONTROL TABLE

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

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APPENDIX 2 – Average scores 2021

Pension Governance	Average score
Knowledge of the role of the administration authority in relation to the LGPS	3.9
Understanding of how the roles and powers of the Administering Authority, Scheme Advisory Board, The Pension Regulator and the Pension Ombudsman relate to the Scheme.	3.6
Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	3.2
Understanding of the role and responsibilities of the Pension Fund Committee in relation to the Fund.	3.9
Understanding of the role and responsibilities of the Pension Fund Board in relation to the Fund.	3.7
Awareness of the role and statutory responsibilities of the Monitoring Officer	3.3
Knowledge of the stakeholders of the Pension Fund and the nature of their interests.	3.7
Knowledge of how the Pension Fund management of risks are monitored and managed.	3.6
Knowledge of consultation, communication and involvement options relevant to stakeholders.	3.3
An understanding of how conflicts of interest are identified and managed	3.5
An understanding of how breaches of law are reported.	2.9
Awareness and understanding of Annual Governance Statement	3.5
Governance overall	3.5
Financial Markets knowledge	
An understanding of the risk and return characteristics of the main assets classes (equities, bonds, property etc.)	3.3
An understanding of the role of these asset classes in the long-term pension fund investing.	3.4
An awareness and understanding of the Funds statement of Investment Principles (SIP) and the investment strategy decisions	3.3
Awareness and understanding of the Funding Strategy Statement (FSS)	3.2
Broad understanding of the workings of the financial markets and of the investment vehicles available to the Pension Fund and the nature of the associated risks.	3.6
Understanding of the limits placed by regulation on the investment activities of Local Government Pension Funds	2.8
Understanding of how the Pension Fund interacts with taxation system in the UK and overseas in relation to investments	2.7
General understanding of the role of the Global Custodian	2.4
Financial Markets overall knowledge	3.1
Investment Performance & Risk Management	
Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long term risks	3.5
Awareness of the Myners principles of performance management and the approach adopted by the administering authority.	2.7
Awareness of Funds risk management policy and the current risk register	3.3
Overall Investment Performance & Risk Management knowledge	3.3
Actuarial	
General understanding of the role of the Fund actuary.	3.5

Knowledge of the valuation process including developing the Funding Strategy.	3.5
Broad understanding of the implications of accepting new employers into the Fund.	3.5
Understanding of the implications of employers leaving the fund and of cessation calculations	3.4
General understanding of importance of employer covenant and relative strengths of the covenant across the fund employers.	3.5
General understanding of relevant considerations in relation to outsourcings and bulk transfers.	3.4
Actuarial Overall	3.0
Pensions Accounting and Audit Standards	
Understanding of the Accounts and Audit regulations and legislative requirements relating to internal controls and proper accounting practice.	3.5
Understanding of the role of both internal and external audit in the governance and assurance process	3.8
Pensions Accounting and Audit Standards Overall	3.7
Pension Administration	
Understanding of the Local Government Pension Scheme benefits structure	3.7
Knowledge of Pension Administration Strategy and delivery	3.5
Knowledge of how discretionary powers operate	2.6
Understanding of required and adopted scheme policies and procedures relating to:- Member data maintenance & record keeping processes, Internal dispute resolution, Contributions collection, Scheme communication & materials	3.1
Understanding of best practice in pension administration	3.3
Understanding of how Pension Fund interacts with taxation system in UK and overseas in relation to benefits administration	2.7
Understanding of AVC arrangements exist and principles relating to the operation of these, choice of investments offered, providers investment * fund performance and payment schedule of arrangements.	2.7
Pension Administration Overall	3.1
Pensions Legislation	
General understanding of pensions legislative framework in the UK	3.3
Overall understanding of legislation and statutory guidance specific to Local Government Pension Scheme (LGPS).	3.2
Appreciation of LGPS discretions and how the formulation of discretionary policies impacts on the Pension Fund, employers and local taxpayer.	3.0
Regularly updated appreciation of the latest changes to the scheme rules	3.4
Pensions Legislation Overall	3.2
Responsible Investment	
Awareness and understanding of Statement of Responsible Investment	3.5
Understanding of fiduciary duties in relation to responsible investments	3.3
Awareness and understanding of risks, opportunities and impacts of decisions in relation to investments and impact on the Fund and its beneficiaries.	3.7
Awareness of Climate change issues	3.6
Responsible Investment Overall	3.5



BUSINESS PLAN 2021/22 – 2023/24

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

10 June 2021

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the Pension Fund Business Plan 2021/22 – 2023/24.**
- 1.2 Best practice suggests that having a business plan for the pension fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1 contains the first Pension Fund Business Plan, covering the period 2021/22 – 2023/24.
- 1.3 The Business Plan 2021/22 – 2023/24 identifies an Action Plan that will be delivered during the next three years to support the aims and objectives of the Pension Fund.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Business Plan 2021/22 – 2023/24 as set out in Appendix 1 is approved.**

3 BACKGROUND

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

4 PENSION FUND BUSINESS PLAN 2021/22- 2023/24

- 4.1 Appendix 1 contains the proposed Pension Fund Business Plan 2021/22 - 2023/24 (the Business Plan).
- 4.2 The Business Plan has been developed by officers in Human Resources and Finance and uses the template developed for the Council, with some adjustments to meet the specific needs of the Pension Fund.
- 4.3 The sections of the Business Plan are:
 - (a) Overview of the Pension Fund;
 - (b) A summary of what must be done;
 - (c) The Fund's aims and objectives;
 - (d) A summary of successes and areas for improvement; including the actions completed in 2020/21 from the previous Business Plan.
 - (e) Management of Risk Summary;
 - (f) Key stakeholders;
 - (g) An overview of the Fund's resources;
 - (h) How Performance is managed;
 - (i) The Fund's Action Plan, including performance indicators for 2021/22 - 2023/24.
- 4.4 The Action Plan is split into three objectives which support the Strategic Aims and Objectives of the Fund. These are:
 - (a) Set levels of employer contributions that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund, and invest in assets that grows the Fund's assets in such a way that produces levels of employer contribution that are as stable as possible.
 - (b) Deliver a High Quality Pension Service to Members.
 - (c) Ensure that Scottish Borders Pension Fund is managed effectively, transparently and in compliance with legal requirements.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

5.3 Integrated Impact Assessment

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

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

Approved by

David Robertson

Signature

Executive Director Finance & Regulatory

Author(s)

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

Background Papers:

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

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Scottish Borders Council Pension Fund

Business Plan 2021/22 – 2023/24

Contents	Page No.
About The Pension Fund	3
What we <i>must</i> do	4
Our Aims and Objectives	5
Our Successes, Areas for Improvement and Self-Assessment	6
Managing Our Risk	7
Our Key Stakeholders	9
Our Resources	10
Managing Our Performance	11
Our Action Plan	13

Page 66

Any areas of our business plan that require an **Equality Impact Assessment** are indicated within the Service Area Action Plans.

About the Pension Fund

This section gives an overview of our services.

Local Government Pension Scheme

- Scottish Borders Council an Administering Authority for the Local Government Pension Scheme (LGPS)
- Defined Benefit Pension Scheme

Pension Fund Funding & Investments

- **£859.8m Net Assets** under management
- **110%** of estimated liabilities as 31 March 2020 funded – per Triennial Actuarial Valuation
- 17 Investment Managers managing funds under 32 different mandates
- Investments in Equities, Gilts & Bonds, Alternative Assets, Private Credit, Property and infrastructure
- Accounting and Administration of Investments undertaken by the Council's Pensions and Investments Team
- AVC option provided by Standard Life

Pension Fund Governance

- Functions of Administering Authority overseen by **Pension Fund Committee**
- Regulatory compliance support provided by **Pension Fund Board**
- Financial Scrutiny undertaken by Audit and Risk Committee
- Supported by external Custodian, Actuary and Investment Adviser
- Governance arrangements set out in Governance Policy and Compliance Statement

Pensions Administration

- **11,664 members** – 4,647 actively contributing to the Fund
- **4,040 pensioners** in receipt of LGPS pension from the scheme amounting to **£25.16m p.a. in pension benefit payments**
- 17 Employer Bodies –Scottish Borders Council with 88.2% of the membership
- Administration of Pension Benefits undertaken by the Council's HR Shared Services Team

What we must do

This section gives an overview of the most significant legislative requirements affecting our services. This list is not exhaustive.

Where changes to services have been proposed within the Service Directorate Business Plan the individual Service Area concerned will have reviewed the proposed change(s) with due regard to the relevant legislative powers and duties.

Legislative power	Duty to ...	Other Directive(s) ...	Mandatory	Discretionary	Partnership / Service Level Agreement (SLA)
Public Service Pensions Act 2013	Sets out the parameters of the Public Service Pension Schemes, the design of the benefits and the governance arrangements including the identification of The Pensions Regulator as the regulator for Public Service Pension Schemes.	Guidance Published by The Pensions Regulator	✓		
Local Government Pension Scheme (Scotland) Regulations 2018 and subsequent Amendments	Sets out the benefits payable and the duties of the Council as administering authority of for a pension scheme for persons working in local government service		✓		
Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014	Sets out the transitional arrangements for the Council in relation to the transition to the new scheme set out in the 2014 regulations		✓		
Local Government Pension Scheme (Governance) (Scotland) Regulations 2015	Sets out the requirements for Scheme Advisory Boards and Pension Boards		✓		
Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016	Sets out the parameters around the management and investment of the pension assets and the creation of a separate bank account.		✓		

Our Aims and Objectives

Primary Aim of the Pension Fund

To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

Achieved through the following Objectives:

Funding Objectives of the Pension Fund

- Set levels of employer contribution that will **build up a fund of assets that will be sufficient to meet all future benefit payments** from the Fund; and
- Build up the required assets in such a way that produces levels of **employer contribution that are as stable as possible** through:
 - Ensuring effective and efficient management of employer's liabilities; and
 - Allowing the return from investments to be maximised within reasonable risk parameters.

Pensions Administration Objectives of the Pension Fund

- Deliver a **High Quality Pension Service to Members** through:
 - Continually developing and improving efficient working arrangements, making use of digital means where possible; and
 - Striving to exceed the Fund's service standards

Governance Objectives of the Pension Fund

- Ensure that Scottish Borders Pension Fund is **managed effectively, transparently and in compliance with regulations**

Our Successes, Areas for Improvement and Self-Assessment

This section gives an overview of our recent successes and areas of service delivery that could be improved, as well as feedback we have received.

	Successes	Areas for Improvement/Development
Pensions Administration	<ul style="list-style-type: none"> Annual Benefit Statements issued on time Initial stages of GMP reconciliation completed, final results received which are being reviewed Continual review of manual off-system processes to ensure they are fit for purpose and making use of technology where possible, particularly relevant this past year with the move to home working due to the pandemic Processed payments to pensioners in accordance with recognised timelines in all instances Provision of member details to Fund Actuary to support the triennial valuation 	<ul style="list-style-type: none"> Continue to improve engagement with Employers and potential scheme members Continue the development and engagement with Members and potential members via website Complete development of online access/ information for members via self-service functionality Changes to the models of service delivery will require increased focus on the admitted bodies and their agreements Look at digitisation of scheme member records to support shift to home working
Pension Funding and Investments	<ul style="list-style-type: none"> 110% funding position Triennial Actuarial Valuation at 31 March 2020 and Funding Strategy updated, including cessation policy information Good 3 year performance to March 2021 with investment returns of 8.36% on a rolling 3 year annualised basis compared to a benchmark of 7.70% Strong 1 year performance of 20.1% against benchmark of 18.3%, Continued progress in Responsible Investment monitoring and reporting Stability of Employer Contribution Rates over successive Triennial Valuations 	<ul style="list-style-type: none"> Further develop the Funds policy and monitoring approach to Responsible Investment Full review of strategic asset allocation following completion of 2020 triennial valuation.
Pension Fund Governance	<ul style="list-style-type: none"> Completion of 2020/21 Training program Regular reviews of Risk Register No actions arising from External Audit of the Annual Report & Accounts 2019/20 Responding to consultations either individually or collectively with other Scottish LGPS Funds 	<ul style="list-style-type: none"> Continue to develop the knowledge and skills for all members of Pensions Committee and Board Updating of all Policy and Strategy documents in line with the legislative changes Review and implementation of updated codes and guidance on good governance

Managing Our Risk

This section gives an overview of the key strategic risks and includes the respective mitigating actions.

The Pension Fund Committee reviews the Risk Register in accordance with the Council's Risk Management Framework.

A full copy of the Risk Register was approved at the joint Pension Fund Committee and Board meeting on governance held on 10 June 2021 with actions monitored and new risks added where required throughout the year. The table below summarises the risk register, as at 31 March 2021, by the Chartered Institute of Public Finance Accountants (CIPFA) Pension risk categories:

Risk Category	Risk Assessment					
	Before Controls/Mitigating Actions			After Controls/Mitigating Actions		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	5	7	-	-	9	3
Employer	1	6	-	-	2	5
Resource & Skill	-	5	-	-	2	3
Liability	2	5	-	-	2	5
Administrative	-	8	-	-	1	7
Regulatory & Compliance	4	2	-	1	3	2
Reputation	2	4	-	-	2	4
Total Number of Risks	14	37	0	1	21	29

Key Identified Risks which remain “Red” after existing controls and additional mitigating actions are as follows:

Risk	Inherent Risk Score	Controls/Mitigating Action(s)	Residual Risk Score
6.2 Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	25	<p>Existing Controls: Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly, Involvement with COSLA discussions on Pensions and monitoring and highlighting actions and decisions from scheme advisory board;</p> <p>Mitigating Actions: Seek to input into any of the legislative change through active membership of COSLA.</p>	16

Our Key Stakeholders

This section gives an overview of our key internal and external stakeholders, including community planning and cross-border partnerships.

Internal	External	Cross-Border Partnerships / Other
Employees	Deferred and Pensioner Members	Scottish Pensions Liaison Group
Councillors	Investment Managers	Scottish Pensions Investments and Governance Group
Legal Services	Custodian – Northern Trust	
Finance & Procurement	Isio, Investment Advisor	
Local Trades Union Reps	Admitted & Scheduled Employers	
Human Resources	Scheme Advisory Board	
Democratic Services	Regional Trades Union reps	
	The Pensions Regulator	
	Scottish Public Pensions Authority (SPPA)	
	Scottish Government	
	Actuary – Hymans Robertson	
	Legal Advisors	
	Software Suppliers	
	Tax Advisers	

Our Resources

As at the 31 March 2021 the Fund's Net Assets were valued at **£859.8m**

Investment Manager	Asset Description	31-Mar-20	
		£'000	%
Baillie Gifford	UK Equities	61.2	7.1
Baillie Gifford	Global Equities	164.1	19.1
UBS	Managed Fund - UK Equities - Passive	51.6	6.0
UBS	Managed Fund - Property	37.2	4.3
Blackrock	Managed Fund – Long Lease Property	58.2	6.8
Morgan Stanley	Managed Funds - Global Equities	118.4	13.8
LGT	Managed Fund - Alternatives	59.8	6.9
M&G	Managed Fund - Diversified Income	116.3	13.5
M&G	Managed Fund – Index Linked	62.7	7.3
Permira	Managed Fund – Private Credit	24.7	2.9
Partners Group	Managed Fund – Private Credit	27.4	3.2
Macquarie	Infrastructure Debt	39.1	4.5
Various (through LPFI)	Infrastructure	30.6	3.6
Cash	Internal	8.5	1.0
		859.8	100

Page 73

During the financial year 2020/21 the benefits payable and contributions receivable from members and employers within the Fund were as follows:

	2020/21	
	Benefits Payable	Contributions Receivable
		£'000
Scottish Borders Council	22,918	(17,739)
Scheduled Bodies	438	(916)
Admitted Bodies	1,801	(2,010)
Total	25,157	20,665

Managing Our Performance

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

Pension Administration

- The **Pension Administration Strategy** (approved in September 2020) sets out the service standards that Employers can expect from the Fund and those expected from each Employer within the Fund.
- The annual performance against these service standards and performance measures set out in the Pensions Administration Strategy will be reported to the joint Pension Fund Committee/Pension Board meeting and then incorporated into the Fund's Annual Report and Accounts.

Investment Performance

- Page 74
- The **Statement of Investment Principles** (presented for approval 22 June 2020) sets out the target long-term annual investment return for the Fund's assets of at least 3.7% above the Consumer Price Index (CPI). It also details the performance targets for each of the investment fund managers used by the Fund to benchmark returns, the service standards that Employers can expect from the Fund, and those expected from each Employer within the Fund.
 - The quarterly performance report by the Investment Adviser is reviewed at the joint Pension Fund Committee/Board meetings. In addition, all of the investment managers attend at least one of the 4 monthly meeting of the Pension Fund Investment and Performance Sub-Committee to present a more comprehensive update on their performance.
 - The Fund's Annual Report and Accounts will report the annual position and the annualised three year rolling average performance of the Fund and compare this against the Fund's benchmark and other Local Authority Pension Fund performance.

Funding Levels

- The **Funding Strategy Statement** sets a target of 100% funding level and stable employer contributions; this is assessed every three years by the Fund's Actuary.
- The last triennial valuation was undertaken as at 31 March 2020 and reported a certified 110% funding level and stability of employer contributions for open and active employer bodies.

Governance

- The Fund is required to report on its Governance in the Fund's Annual Report and Accounts. This includes an Annual Governance Statement and a Governance Compliance Statement.

Statutory returns

The Fund makes a number of statutory and other returns to Scottish Government, the Scheme Advisory Board and third party agencies / organisations, including the Office of National Statistics.

Benchmarking

Finally, the Fund is committed to assessing how it is performing and uses an independent performance service to provide additional analysis to assess investment performance relative to the market at a Fund, asset class and investment manager level.

Officers participate in the Scottish Pensions Liaison and Investments & Governance Groups which shares good practice and also gather comparative data on administration and investments across the 11 Scottish LGPS Funds.

The following Table provides an analysis of how the Fund's investments performed against the Fund's own benchmark:

Return on Investment as at 31/3/2021	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund	20.1%	18.3%	8.3%	7.7%
Global Equities including UK	39.8%	39.4%	16.6%	14.3%
UK Equities	30.4%	27.3%	4.2%	3.5%
Bonds	12.9%	3.3%	4.2%	3.6%
Property	9.6%	4.0%	5.3%	4.6%
Alternatives	0.3%	3.6%	2.4%	4.0%
Cash	-	-	-	-

Our Action Plan

Actions successfully completed during 2020/21

Key Tasks	PI ref.	Actions	Completed
Monitor and report investment performance	P1-A1	Fund Investment Performance at Benchmark on quarterly basis	Presented quarterly to Joint meeting
Undertake and complete Triennial valuation.	P1-B1	Triennial Actuarial Valuation Funding Level of assets against liabilities	Results approved 10/3/21
	P1-B2	Data provision review to meet the requirements of newly appointed Actuary	
Approval and implementation of 2023 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P1-C1	Correct employer contribution rates in Pensions System for each employer	Results approved 10/3/21, employers notified
	P1-C2	Pension Fund Committee approval of Funding Strategy Statement	
Ensure Fund reclaims all tax possible	P2-A1	Undertake review of current taxation position	Completed and recommendation approved 11/12/20
	P2-A2	Implement actions from taxation review	
Review Communication Strategy and Action Plan in line with best practice and technological advancements	P3-A1	Review of Communications strategy and action plan	Completed and approved 24/9/20
Continue to proactively manage and engage Pension Fund Employers	P3-A2	Hold Annual Employer Liaison Meeting	Regular communication and employer meeting 2/3/21
Review all forms and communication material, including annual benefit statements	P3-A3	Annual review of all forms, communication material, including annual benefit statements	Completed and approved 24/9/20
Develop and gain approval of Cessation and Discretion Policy	P4-A1	Development of Cessation and Discretion Policy	Approved within Funding Strategy Statement 10/3/21
Review and update Governance Policy and Compliance Statement	P9-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2019	Completed and approved 22/6/20
Develop and deliver 2020/21 Training Programme	P9-A2	Pension Fund Committee approval of Training Policy 2020 and Training Programme 2020/21	Completed and approved 22/6/20
	P9-A4	Training Needs Self-Assessment Levels from 2019/20 to 2020/21	

Scottish Borders Council Pension Fund

Draft Business Plan 2021/22 – 2023/24

Review and update Responsible Investment Policy and annual reporting	P9-A5	Review current and developing best practice for responsible investment	Monitoring report approved 24/9/20
Review and update Pensions Administration Strategy	P9-A3	Pension Fund Committee approval of Pensions Administration Strategy	Completed and approved 22/6/20
Undertake procurement exercise for Investment Advisor	P10-A1	Undertake procurement exercise for Investment Advisor (current contract end 31/3/2021)	Completed and approved 10/3/21

Scottish Borders Council Pension Fund

Draft Business Plan 2021/22 – 2023/24

This section gives an overview of the ACTIONS that will be undertaken to achieve our objectives, the PERFORMANCE INDICATORS that will show whether we have achieved our objectives and the RISKS that will detail what may stop us from achieving our objectives.

What we want to achieve ... (Objective)								
Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund, and invest in assets that grows the Fund's assets in a such a way that produces levels of employer contribution that are as stable as possible								
How?				By whom?	By when?			IIA
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	21/22	22/23	23/24	
P 1	Review Pension Strategies informed by 2020 Triennial Valuation Results							
		Monitor and report investment performance	P1-A1	P&I Manager	●	●	●	
		Undertake and complete Triennial valuation.	P1-B1 P1-B2	HRSS Manager P&I Manger			●	●
		Approval and implementation of 2020 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P1-C1 P1-C2	HRSS Manager P&I Manager	●			●
P 2	Maximise investment performance							
		Review Strategic asset allocation following completion of 2020 valuation	P2-A1	P&I Manager	●			
		Implementation of approved strategic asset allocation	P2-B1 P2-B2	P&I Manager		●		

Scottish Borders Council Pension Fund

Draft Business Plan 2021/22 – 2023/24

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P1-A1	Fund Investment Performance at Benchmark	Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis		•	
P1-B1	Triennial Actuarial Valuation Funding Level of assets against liabilities	100%	As at 31/3/2023 reported by 31/03/2024		
P1-B2	Data provision review to meet the requirements of Actuary	By 30/06/2023			
P1-C1	Correct employer contribution rates in Pensions System for each employer	By 30/06/2021		•	
P1-C2	Pension Fund Committee approval of Funding Strategy Statement	By 30/06/2021		•	
P2 – A1	Undertake full review of strategic asset allocation	By 30/09/2021			
P2 – B1	Agree plan for implementation of approved strategic asset allocation	By 31/12/2021			
P2 – B2	Action plan for strategic asset allocation implementation	By 31/12/2022			

What we want to achieve ... (Objective)												
Deliver a High Quality Pension Service to Members												
How?					By whom?	By when?			EIA			
Action No.	How we will achieve our objective ... (Action)		Key Tasks			PI ref.	Owner	21/22	22/23	23/24		
P 3	Develop and Implement an effective Communication Strategy for the Pension Fund			Review Communication Strategy and Action Plan in line with best practice and technological advancements			P3-A1	HRSS Manager	●	●	●	●
				Continue to proactively manage and engage Pension Fund Employers			P3-A2	HRSS Manager	●	●	●	
				Review all forms and communication material, including annual benefit statements			P3-A3	HRSS Manager	●	●	●	●
	P 4 Ensure stability of Employers			Review of Employer covenants			P4-A1 P4-A2	HRSS Manager	●	●		
	P 5 Ensure accuracy of Pension Records			Complete full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC			P5-A1 P5-A2	HRSS Manager	●			
				Consider the implications of the McCloud case			P5-A3	HRSS Manager	●	●		
				Consider the implications of the Goodwin case			P5-A4	HRSS Manager	●	●		
P 6	Implementation of self service facility			Implementation of Self Service facility			P6-A1	HRSS Manager	●	●		
	P 7 System improvements to support home working			Consider implementation of workflow			P7-A1	HRSS Manager	●			
				Implementation of i-Connect for large employers			P7-A2	HRSS Manager	●	●		
				Digitisation of historical records			P7-A3	HRSS Manager	●	●		

Scottish Borders Council Pension Fund

Draft Business Plan 2021/22 – 2023/24

		Continued promotion of available for online payslip and P60's	P7-A4	HRSS Manager	•	•		
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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P3- A1	Review of Communications strategy and action plan	30/09/2021			•
P3-A2	Hold Annual Employer Liaison Meeting	1 meetings by 31/03/2022			•
P3-A3	Annual review of all forms, communication material, including annual benefit statements	31/08/2021			•
P4-A1	Review of admission agreement	31/03/2022			
P4-A2	Review of employer guarantees	31/03/2022			
P5-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	31/10/2021			
P5-A2	Review of Common and Specific Data following annual review and return to The Pension Regulator.	31/12/2021			•
P5 – A3	Review all guidance and communication on McCloud case implications	31/02/2022			
P5 – A4	Review all guidance and communication on Goodwin case implications	31/02/2022			
P6-A1	Implementation and roll out of self service to all members	31/12/2021			
P7-A1	Implementation of workflow	31/12/2021			
P7-A2	Implementation if i-Connect	31/12/2021			
P7-A3	Digitisation of historical records	31/12/2022			
P7-A4	Implementation of online payslips and P60's	31/03/2022			

Scottish Borders Council Pension Fund

Draft Business Plan 2021/22 – 2023/24

What we want to achieve ... (Objective)

Ensure that Scottish Borders Pension Fund is managed effectively, transparently and in compliance with regulation

How?				By whom?	By when?			EIA
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	20/21	21/22	22/23	
P 8	Continue to develop robust governance and risk management							
		Review and update Governance Policy and Compliance Statement	P8-A1	P & I Manager	•			•
		Develop and deliver 2021/22 Training Programme	P8-A2 & A4	P & I Manager	•			
		Review and update Responsible Investment Policy and annual reporting	P8-A5 & A6	P & I Manager		•		
		Review and update Pensions Administration Strategy	P8-A3	HRSS Manager	•	•	•	•
		Ensure the Pension Fund is prepared to meet any future reporting requirements from the Stewardship Code 2020	P8-A7 & A8	P & I Manager	•	•		
P 9	Review services provided by IT providers to ensure data is secure and adheres to cyber security requirements							
		Implement annual assurance requirement for IT providers	P9-A1, A2 & A3	HRSS Manager	•	•	•	•

Page 82

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P8-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2020	30/06/2021			•
P8-A2	Pension Fund Committee approval of Training Policy 2020 and Training Programme 2021/22	30/06/2021			•
P8-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/2021			•
P8-A4	Training Needs Self-Assessment Levels from 2020/21 to 2021/22	30/06/2021			•
P8-A5	Undertake ESG workshop	30/09/2021			

P8-A6	Review current and developing best practice for responsible investment	31/12/2021			
P8-A7	Undertake review of Stewardship Code 2020 and recommendations for adherence	31/12/2020			
P8-A8	Implement recommendation from Stewardship Code review	30/09/2021			
P9-A1	Request assurance of cyber security policy being in place from Aquila Heywood on an annual basis	31/09/2021			•
P9-A2	Request assurance of cyber security policy being in place from CGI on an annual basis	31/09/2021			•
P9-A3	Request assurance of cyber security policy being in place from Hymans Robertson on an annual basis	31/09/2021			•

Additional Information

The public papers and minutes of the Pension Fund Committee are available on the Council's website for Council papers via the following link:

<http://scottishborders.moderngov.co.uk/>

The Pension Fund's key policy and strategy documents can be found on the Scottish Borders Council Pension Fund website via the following link:

www.scottishborderscouncilpensionfund.org

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

Scottish Borders Council Pension Fund

Draft Business Plan 2021/22 – 2023/24

Contact us at Kirsty Robb, Pensions & Investments Manager, Council HQ, Newtown St Boswells

01835 825249, krobb@scotborders.gov.uk

RISK REGISTER UPDATE

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

10 June 2021

1 PURPOSE AND SUMMARY

- 1.1 **This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an updated full register and proposed management actions to mitigate the risks.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A virtual risk workshop was held on 23 April 2021 with Officers from relevant Departments to review and update the full risk register. The output of this is shown in Appendix 1.
- 1.4 A summary of the changes made during the review are detailed in para 4.3.
- 1.5 There were no new risks identified during the review.
- 1.6 In line with the Council's Risk Management Policy (2018) a paper to be presented at the September 2021 meeting will report progress on the management actions and present any new risks for consideration.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Agrees the updated Full Risk register as contained in Appendix 1; and**
 - (b) **Agrees to an update on progress of management actions to be presented in September 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". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in the "Risk Management process guide" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 3.3 The Pension Fund's Business Plan 2021/22 – 2023/24, to be presented for approval on 10 June 2021, sets out the aims and objectives of the Pension Fund. These aims and objectives were fully considered and recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

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

- 3.5 To comply with the Council's revised policy of risk management and best practice, a Risk Management reporting cycle was developed around the performance and business plan reporting of the Pension Fund. As a result the following cycle of reporting was adopted:

- | | |
|-------------|---|
| Quarterly | <ul style="list-style-type: none">• Quarterly Investment Performance Report;• Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;• Update on progress of risk management action delivery. |
| Bi-Annually | <ul style="list-style-type: none">• Mid-Year Progress report on Business Plan Actions;• Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;• Update on progress of risk management action delivery. |
| Annually | <ul style="list-style-type: none">• Annual Governance Meeting with Annual Report and Policy/Strategy Performance Reports;• Annual reporting on progress with Business Plan and approval of updated Business Plan;• Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks. |

4 RISK REGISTER UPDATE

- 4.1 A full risk workshop was undertaken on 23 April 2021 by Officers from the Pension and Investment Team, Human Resources Shared Services and Internal Audit & Risk in order to ensure that the risk register's contents were still relevant and up-to-date. The outcome of the workshop is detailed in Appendix 1.
- 4.2 There are 51 risks identified in the register, of which 14 are red risks prior the application of internal controls. The current identified controls reduce the red risks to one. There are 18 risks with identified management actions, which will improve and add to the current controls.
- 4.3 The following risks have been updated from the previous risk register

Risk no.	Update
1.9	Management approach of Treat updated to reflect investment strategy review being undertaken
1.11	Scores for current risk updated to reflect recent experiences of short term effect on investments. Impact reduced from 3 to 2 and likelihood reduced from 4 to 3.
2.1	SOSE included within current controls as de-pooled employer
2.2	New treat action– monitoring of implementation of approved contribution rates post valuation
2.3	Inclusion of cessation responsibilities included in Funding Strategy Statement added to current controls
2.6	Monitoring of ill health retirements added to current controls
3.5	Management approach of Treat updated to reflect annual reviews of competency framework for all staff
4.3	Monitoring of ill health retirements added to current controls
6.1	Management approach of Treat updated to reflect annual reviews of competency framework for all staff
6.3	Management approach of Treat updated to reflect annual reviews of competency framework for all staff
7.6	Management approach of Treat updated to reflect proposed ESG workshop prior to review of Responsible Investment Policy

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

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

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

and Board in this report, are designed to directly enhance the management of risks.

5.3 **Integrated Impact Assessment**

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

5.4 **Acting Sustainably**

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

5.5 **Carbon Management**

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

5.6 **Rural Proofing**

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

5.7 **Changes to Scheme of Administration or Scheme of Delegation**

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

6 CONSULTATION

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

Approved by

David Robertson
Executive Director Finance & Regulatory

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Committee and Pension Board 4 March 2021

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.

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Pension Fund - Risk Register actions updates							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	
1.1	Asset & Investment	Failure to achieve the target investment returns set out in the Statement of Investment Principles over the longer term may lead to significant increased employer contribution rates and costs of implementing changes to the investment strategy.	Inappropriate strategic asset allocation for Fund's requirements; Inappropriate investment approaches within asset class; Underperformance/ negative investment returns from investments under management; Significant and sustained market and economic events creating adverse movements in valuations; Investment Strategy inconsistent with Funding Strategy.	Significant rises in the employer contributions; Costs involved in implementing changes to investment strategy; Funding Deficit for Fund.	Ongoing	Pension Fund Committee/ Exec Dir Finance & Regulatory	4	3	12	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards TOLERATE	Effective	4	3	12	
1.2	Asset & Investment	Failure of Fund's Custodian may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Inaccurate recording of asset transactions; Financial or internal controls fail to prevent fraud or misappropriation; Organisational failure resulting in closure of business/cessation of trading.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fund Committee/Exec Dir Finance & Regulatory	4	3	12	Robust procurement processes around the custodian; Reconciliation of Custodian to Investment Manager Records; Monitor custodian performance and credit rating; Monitoring of financial media; Covered by legal contract; Regulated by FCA, assets not on custodian balance sheet; Receipt of annual controls reports from Custodian's External Auditors; Annual External Audit Process; Legal recourse within contracts. Annual reviews undertaken with Custodian and Investment manger TOLERATE	Effective	2	2	4	
1.3	Asset & Investment	Failure of one of the Fund's Investment Manager may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Investment Manager's framework of controls does not prevent fraud, misappropriation or erroneous investment activity; Investment Manager's business model fails.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fund Committee/Exec Dir Finance & Regulatory	5	3	15	Robust procurement processes around the managers; Engagement with Investment Adviser in relation to monitoring external environment in respect of the individual managers; Reconciliation of Custodian to Investment Manager Records; Diversification of investment managers; Continual monitoring of investment performance; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Regulated by FCA; Receipt of annual controls reports from Investment Managers' External Auditors; Legal recourse within contracts TOLERATE	Effective	3	3	9	

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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/Executive Dir Finance & Regulatory	5	4	20	Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role TREAT Ongoing training for elected members of the Pension Board and Committee	Effective	4	2	8	
1.5	Asset & Investment	Failure to manage Currency risk may lead to an inability to maximise the returns from investments with the agreed risk parameters resulting in an adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions impacting on currency rates	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Ongoing	Exec Dir Finance & Regulatory	3	4	12	Follow advice of external advisers that fund should take long term view of currency fluctuations; TOLERATE	Partially Effective	3	3	9	
1.6	Asset & Investment	Failure to react to major changes in market/economic conditions may lead to an inability to manage the fund properly resulting in significant adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Ongoing	Exec Dir Finance & Regulatory	4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Diversification of asset classes and investment managers; Scrutiny of Strategic Asset Allocation and Investment performance by Investment & Performance Sub-Committee; TOLERATE	Effective	3	3	9	
1.7	Asset & Investment	Underperformance of Investment Manager(s) may lead to financial losses for the Fund resulting in the inability to achieve the target investment returns set out in the Statement of Investment Principles which over the longer term may lead to significant increased employer contribution rates and costs of implementing changes in investment managers.	Underperformance/ negative returns from investments under management as a result of individual management approach/actions.	Financial loss which may lead to significant increased employer contribution rates and costs of changing investment managers	Ongoing	Pension & Investment Manager/ Pension Fund Committee/Executive Dir Finance & Regulatory	3	4	12	Robust procurement processes around the managers placed on short lists; Diversification of investment managers; Continual monitoring of investment performance against benchmark, targets and tolerance; Engagement with Investment Adviser in relation to monitoring external environment and setting benchmarks in respect of the individual investment managers; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Monitoring of financial media; Immediate action would be considered and removal of funds to Transition Manager. TOLERATE	Effective	2	3	6	
1.8	Asset & Investment	Insufficient scrutiny of manager mandates and terms of business may lead to a failure to manage the Fund properly resulting in inappropriate fee levels and other costs.	Lack of information from fund managers; Lack of capacity within pension fund team and advisers;	Inappropriate fee levels and other costs.	Ongoing	Pension & Investment Manager	2	3	6	Detailed monitoring in place for the investment managers where direct investments held, higher level monitoring for unitised funds; TOLERATE	Partially Effective	1	3	3	

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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	3	3	9	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. The valuation will trigger assessment of the Investment strategy. TREAT - Undertake a full investment strategy review	Effective	2	2	4	
1.10	Asset & Investment	Failure of Funds investment returns to keep pace with growth in liabilities due to pay and CPI Inflation increase, which may lead to Funding Levels falling and potentially requiring increases in employer contribution rates.	General economic climate results in higher CPI inflation and investment returns do not keep pace due global investment markets and economies	Funding levels fall, Employers pay more contributions into Fund.	ongoing	Exec Dir Finance & Regulatory	4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards TOLERATE	Effective	3	4	12	
Page 91	Asset & Investment	International pandemic resulting in crash of global economy and financial markets	whole scale crash of financial markets which would have direct effect on investment returns.	Funding levels falls, Employers pay more contributions into Fund.	Ongoing	Pension Fun Committee/Exec Dir Finance & Regulatory	4	5	20	Diversification of assets and managers Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards TOLERATE	Partially Effective	2	3	6	
	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	
2.1	Employer	Failure to apply and demonstrate fairness in the treatment of different fund employers may lead to improper management of the Fund and result in inappropriate employer contribution rates or cross-subsidisation of employers out with the agreed pooling arrangements.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates or cross-subsidisation of employers out with the agreed pooling arrangements leading to a shortfall of funding or over charging of an employer.	Ongoing	Pension Fun Committee/Exec Dir Finance & Regulatory	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2020 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA SOSE & CGI to reflect employer situations. Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. Annual declaration now required from each employer. Annual Declaration includes changes of to scheme membership for current and future year. TOLERATE	Effective	3	1	3	

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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	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2020 valuation commenced; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA, CGI & 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 Monitoring of implementation of 2020 valuation rates	Effective	2	2	4	
2.3	Employer	Failure of a Scheme Employer may lead to a shortfall in the funding levels of whole Fund resulting in increases for all other employers contributions	Scheme employer ceasing to operate	Shortfall in fund as a whole with increases required in all other employers contributions	Ongoing	Pension Fund Committee/Exec Dir Finance & Regulatory	4	3	12	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. Funding Strategy Statement revised to include cessation responsibilities TREAT- Undertake review of admission agreements	Effective	3	2	6	
2.4	Employer	Failure to understand and be involved in proposed structural changes in employers' engagement in the Scheme may lead to failure to manage the transition to a different level/type of participation by the employer in the Fund resulting in inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer.	Failure by employer to notify the fund of significant changes of membership; Changes to composition of employees; Fund participation no longer affordable to an employer.	Failure to manage the transition to a different level/type of participation by the employer in the Fund; Inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer. Fund reaches maturity more quickly; Adverse impact on cash flow and funding levels	Ongoing	Exec Dir Finance & Regulatory/Service Dir HR & Comms	3	4	12	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Communication strategy approved and website launched Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year. TOLERATE	Effective	2	2	4	
2.5	Employer	Loss of income for employer resulting in inability to fund contributions	Global pandemic resulting in closure of facilities Loss of income due to global economy crash	Failure of employer to pay contributions loss of cash flow to pay pensioners	ongoing	Exec Dir Finance & Regulatory/Service Dir HR & Comms	3	5	15	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year. TREAT; undertake review of admission agreements and guarantees	Partial Effective	2	5	10	

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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	III health retirements monitored, requirement for employers to fund strain on fund included in revised Funding Strategy Statement Monitoring of cost of ill health retirements in place TOLERATE	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 assess their position. All employers required as part of annual return to outline any upcoming structural changes within organisation which may effect pension fund position TOLERATE	Partial Effective	1	2	2	
Page 93	Resources & skills	Over reliance on key officers may lead to significant knowledge gaps resulting in failure to manage the Fund effectively.	Available resource; Requirement to maintain admin costs; Absence of succession management in relation to supporting crucial aspects of the operation of the Fund.	May lead to significant knowledge gaps resulting in failure to manage and operate the Fund effectively.	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	3	4	12	Use of external advisers (investment/tax/SPPA) provides additional resilience and resources. Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Teams structured to reduce single points of failure and manage succession planning. Procedure notes written tested, system of regular review agreed TOLERATE.	Effective	2	2	4	
	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	2	4	8	Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board TREAT - annual monitoring and reporting undertaken	Effective	3	3	9	
	Resources & skills	Over reliance on key Members of the Board or Committee may lead to lack of challenge and objectivity in decision making resulting in failure to manage the Fund effectively.	Knowledge and experience gap of new members.	Failure to manage the Fund effectively.	Ongoing	Pension Fund Committee/ Pension Fund Board Chairs	3	3	9	All Members of the Pension Fund Committee and Pension Board are actively involved in the discussions with External Advisers and have access to the same information and training opportunities; Clear scheme of administration and constitutions established for the Committee and Board providing clarity of roles and responsibilities; Training Policy sets out skills and knowledge responsibilities for members. Pension Fund Committee and nominated reps of Board are actively involved in discussions with investment managers. TOLERATE	Effective	2	2	4	

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3.4	Resources & skills	Lack of sufficient knowledge and expertise on Pension Fund Committee and Board members to discharge their duties could lead to failure to manage the Fund effectively as a result of poorly considered decision making.	Knowledge and experience gap of new members.	Poorly considered decision making.	Ongoing	Pension Fun Committee/Exec Dir Finance & Regulatory	3	4	12	Pension Fund committee and Board have access to External Advisers and Council Officers to help advise and inform them; Pension Fund committee and nominate representatives of Board have access to Investment Managers via the Investment and Performance sub committee Members Training Policy for Pensions Fund established, monitored and reported on annually; Annual training programme in place; Skills and training assessment undertaken annually. TOLERATE	Effective	2	2	4	
3.5	Resources & skills	Failure of Officers to maintain sufficient level of competence to discharge their duties could lead to failure to manage the Fund effectively as a result of their inability to provide appropriate decision making support and advice.	Changes in legislation; New investment types and vehicles; Lack of documented procedures.	Failure to manage the Fund effectively.	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	3	3	9	Use of External Advisers provides additional resilience and resources; Competency appraisal process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Procedural notes completed Regular engagement with external Investment Managers to supplement knowledge. TREAT - Improvement in quality of procedure notes for officers. Annual review of Competency Framework for all staff	Partially Effective	2	3	6	
Page 94	Liability	Changes in composition of Pension Fund membership, i.e. active/deferred/pensioners may lead to insufficient assets in the Fund to meet the future liabilities as they fall due, potentially increasing employers contribution levels and changes to the investment strategy.	Variance between CPI rates and pay increases; Fewer people joining; Other employers close funds; Economic drivers to reduce workforce.	Fund Matures more quickly than currently anticipated and may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due, potentially increasing employers contribution levels and changes to the investment strategy.	Ongoing	Exec Dir Finance & Regulatory	5	4	20	Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met; Use of an Investment Adviser and Actuarial services as and when required; Implementation of Auto-enrolment completed by July 2017, further re-enrolment to took place 2019 for SBC, will follow the three year cycle; Pension Administration Strategy in place and monitored and Employer Liaison Group; Annual Report includes analysis of membership changes. Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; Estimated monthly cash flow completed and monitored. Investments identified to supplement funding gap TOLERATE	Partially Effective	2	2	4	

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4.2	Liability	If employees can no longer afford to participate in the scheme then there may be reduced income into Fund resulting in a change being required to the Funding and Investments Strategy due to changes in participation levels.	Economic circumstances; Potential increases to employee contributions due to central Govt. decisions; Changes to tax relief on pensions.	Reduced income into Fund resulting in a change being required to the Funding and Investments Strategy	Ongoing	Exec Dir Finance & Regulatory	4	4	16	Limited measures in place. Nationally negotiated rates/benefits with employee representatives (i.e. Trade Unions) on minimising employee contribution increases; Pay awards now being given, economy now improving; LGPS changes implementation of 50/50 option; Trade Union involvement in the Pension Board and Scheme Advisory Board; Communication issued with annual benefits statements. Communication strategy complete and website launched to promote benefits of scheme TOLERATE	Partially Effective	3	2	6	
4.3	Liability	Significant differences between Actuarial Assumptions in the Triennial Valuation Reports and reality may lead to setting Funding and Investment Strategies which may result in insufficient cash flow to fund current obligations or insufficient funding to cover future liabilities	CPI inflation; Mortality levels; Investment Returns.	Setting Funding and Investment Strategies; Insufficient cash flow to fund current obligations or insufficient funding to cover future liabilities; Increased employer contributions.	Ongoing	Exec Dir Finance & Regulatory	3	3	9	Full actuarial valuation undertaken on Triennial basis; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions. Any strain on fund incurred paid by employer at point of retirement; Ill health strains being monitored Regular monitoring of investment performance and where medium to long term trend in returns is identified then this will be reviewed. TOLERATE	Effective	2	3	6	
4.4	Liability	Number and value of early retirements increases to levels in excess of the actuarial assumptions, which may lead to incorrect employer contributions being set, resulting in insufficient funding for future liabilities.	Reducing workforce.	Insufficient funding for future liabilities.	Ongoing	Exec Dir Finance & Regulatory	3	4	12	Full actuarial valuation undertaken on Triennial Valuation; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions; Ensure Employers contribution to strain on the fund is correctly calculated and received into the Fund; Reduction in applications being supported seen in recent tranches of ER/VS; Continue to monitor ER/VS applications and impacts. TOLERATE	Effective	2	2	4	

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4.5	Liability	New pension access reforms ("freedom of choice") may lead to pension fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential for a significant change in the liability profile for the Fund.	Changes in legislation and increase in awareness.	Requirement to release large amounts of cash to members; Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position; Scheme sanction charges for any transfer to unapproved scheme.	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	3	3	9	Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC; Monitoring will be undertaken during the year and reported to Members as part of the annual report. With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct (FCA) regulated adviser, includes signed declaration by individual; Continue to monitor ongoing legislation around this area. Communication Strategy agreed and website launched TREAT - Review and watch to be placed on advice and guidance issued from The Pension Regulator and Government.	Effective	2	2	4	
4.6	Liability	Failure to manage the liquidity required for the Fund's cash flows may lead to assets being sold at unattractive times or investment opportunities missed due to unavailability of cash, resulting in an adverse impact on the valuation of the Fund's assets.	Higher than anticipated levels of retirement; Higher levels of lump sums commutation taken on retirement.	Requirement to divest investment assets at an unattractive time or missing investment opportunities which result in an adverse impact on the value of the Fund's assets	Ongoing	Pension & Investment Manager	4	3	12	Daily and weekly monitoring of Pension Fund's Cash flows; Estimated monthly cash shortfall identified . Investment strategy adjust to ensure income returned to fund to fund cash shortfall. Investment strategy monitored TOLERATE	Partially Effective	2	2	4	
4.7	Liability	Increased early retirements, ill health retirement, 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 Requirement for employers structure TOLERATE	Partially Effective	2	2	4		
5.1	Administrative	Failure to process pension payments and lump sums on time may lead to financial distress for retiring staff and potential referral to the Pensions Regulator and/or external auditor resulting in the possibility of penalty costs and reputational damage.	Insufficient information from member or employer; Lack of access to pension fund system administration information; Absence of specialist pension admin resource.	Financial distress for retired staff; Potential referral to the Pensions Regulator and/or external auditor; Potential for penalty costs to be levied; Reputational damage.	Ongoing	HR Shared Services Manager	3	3	9	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained. TOLERATE	Effective	2	2	4	
5.2	Administrative	Failure to collect and account for contributions from employers and employees on time may lead to adverse cash flow implications for the Fund potentially resulting in adverse external audit opinion, referral to the Pensions Regulator, reputational damage and requirement to divest investments to fund the cash flow deficit.	External employers not remitting contributions on time.	Adverse cash flow implications for the Fund; Adverse external audit opinion; Referral to the Pensions Regulator; Reputational damage; Requirement to divert investments to fund the cash flow deficit.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained. TOLERATE	Effective	2	2	4	

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5.3	Administrative	Failure to provide pensions administration service due to major operational disruption could lead to inability to provide a high quality pension service to members	Loss of main office; Computer system; Staff absence.	Ability to process payments on time; Financial distress to members; Reputational risk.	Ongoing	HR Shared Services Manager	4	3	12	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. Pensions Administration System is hosted system, along with Windows 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	
5.4	Administrative	Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds.	Lack of monitoring; Lack of segregation of duties.	Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members.	Ongoing	HR Shared Services Manager	3	3	9	Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk. TREAT - to request from each External Employers audited accounts to provide assurance on their internal controls	Effective	2	2	4	
Page 97	Administrative	Failure to hold personal data securely resulting in personal data loss, reputational damage and potential financial penalty	Lack of controls; Lack of monitoring; Lack of procedures; Lack of training and awareness.	Data lost or compromised; Reputational risk; Potential financial Penalty from Information Commissioner.	Ongoing	HR Shared Services Manager	2	3	6	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Staffing structure of HR Shared Services continues to monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained in mandatory Data Protection and fully compliant with SBC Info. Governance requirements. Mandatory GDPR course undertaken by all staff. TOLERATE	Effective	2	2	4	
5.6	Administrative	Failure to keep pension records up to date and accurate may lead to incorrect pensions information being issued or incorrect benefits calculations or payments	Lack of info from members and employers; Human error; IT systems failure.	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Staffing structure of HR Shared Services continues to monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained mandatory Data Protection and fully compliant with SBC Info. Governance requirements; Annual Statements issued to active and deferred members, including list of beneficiaries. Form included for changes or discrepancies, Communication strategy approved and website launched TOLERATE	Partially Effective	2	2	4	

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No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score	
5.7	Administrative	Failure to communicate effectively with stakeholders in Pension Fund resulting in inability to provide high quality pensions service	Failure to issue information in a timely manner and in an easily understandable format.	Scheme members not aware of their rights resulting in bad decisions; Employers not aware of regulations, procedures, etc.	Ongoing	HR Shared Services Manager/ Pension & Investments Manager	3	3	9	Engagement in Scottish pension networks; Union and Admitted body representation on the Pension Fund Board; Publication of annual report via website and electronic copies circulated to all Scheduled and Admitted bodies; Annual reporting or performance of issuing Benefits Statements to Pension Fund Committee and Board. Communication strategy agreed and launch of website. TOLERATE	Effective	2	2	4	
5.8	Administrative	Failure to ensure pension transfer payments due to/payable by the fund are calculated accurately and received/paid resulting in incorrect funds being held within the Fund to pay future benefits to individuals	Failure to ensure pension transfer payments due to the fund are calculated accurately and received	Insufficient funds transferred/received to meet future obligations; Failure to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations; Referral to the Pension Regulator; Reputational damage; Financial penalty.	Ongoing	HR Shared Services Manager	2	3	6	Pension administration system continues to provide automated support in calculation, using nationally approved scheme based on number of standard assumptions at point of transfer. Procedure reviewed regularly TOLERATE	Effective	2	2	4	
6.1	Page 90	Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation	Changes to legislation; Lack of staff training; Lack of knowledge and skills	Wrong pension payments made or estimates given; Breach of regulations; Prosecution.	Ongoing	HR Shared Services Manager/ Pension & Investments Manager	2	3	6	Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates; External Audit review extends beyond financial controls; Pension Board review of decisions; Appraisal process implemented to identify training and development requirements. TREAT - Annual review of Competency Framework to all staff	Effective	2	2	4	
6.2		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	5	5	25	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board; TREAT Seek to input into any of the legislative change through active membership of COSLA;	Partially Effective	4	4	16	
6.3		Failure to produce accounts, notices and publications correctly or on time resulting in inability to manage the fund effectively and compliantly.	Lack of capacity; Conflicting operational demands, including Transformational activity.	Accounts qualified by External Auditors; Referral to Pensions Regulator or Scheme Advisory Board	Ongoing	Exec Dir Finance & Regulatory	3	3	9	Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via Appraisal and attendance at appropriate training events. TREAT - Annual review of Competency Framework to all staff	Effective	2	2	4	

Pension Fund - Risk Register actions updates							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	
6.4	Regulatory & Compliance	Changes in national jurisdictions may lead to changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes	Changes in national jurisdictions	Changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes e.g. Withholding Tax	Ongoing	Exec Dir Finance & Regulatory	3	5	15	Monitoring of political position via news releases and group networks. TOLERATE	Partially Effective	2	5	10	
6.5	Regulatory & Compliance	Changes in LGPS Structures	Review by Scheme Advisory Board on LGPS structures	Fund may cease to exist, assets may be pooled, Administration could pooled	Ongoing	Exec Dir Finance & Regulatory	4	4	16	Monitoring of political position via Scheme Advisory Board TREAT - Actively engage with Scheme Advisory Board and consultants undertaking review	Partially Effective	3	4	12	
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 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	
Page 69	Reputation	Conflict of interest for Elected Members on Pension Fund Committee and Board between Council priorities and Pension Fund Management priorities may result in failure to make the best decision for the Pension Fund	Conflicts of interest; Lack of understanding of their role on the Pension Fund.	Failure to achieve Pension Fund objectives; Failure to make the best decision for the Pension Fund; Referral to the Scheme Advisory Board and/or Pension Regulator; Legal challenge.	Ongoing	Exec Dir Finance & Regulatory	4	4	16	Members are clear on their respective responsibilities to the Council and Pension Fund (Constitution and Code of Conduct) through training; Officers and Investment Adviser provide additional clarity and support to avoid these situations; Skills and knowledge assessment undertaken annually; Pension Board role to ensure compliance with regulatory environment. TOLERATE	Effective	3	2	6	
	Reputation	Failure of the Fund's Governance arrangements may lead to ineffective management of the Fund resulting in reputational damage	Changes in legislation that are implemented incorrectly; Failure to follow Governance arrangements.	Ineffective management of the Fund; Reputational damage; Loss of employer confidence; Referral to Scheme Advisory Board and/or Pension Regulator; Legal Challenge.	Ongoing	Exec Dir Finance & Regulatory	3	3	9	Up to Date constitution for Pension Board and Scheme of Administration for Pension Fund Committee; Review of Governance structures undertaken on annual basis as part of Accounts process via compliance statement; Active participation and monitoring of changes required from LGPS 2015. Pensions Board role to support this agenda. TOLERATE	Effective	2	2	4	
	Reputation	Failure to appoint relevant advisers and review their performance may lead to inappropriate management of the Fund resulting from poor advice to decision makers	Lack of capacity of Officers to monitor.	Failure to achieve Pension Fund objectives; Inappropriate management of the Fund resulting from poor advice to decision makers; Legal challenge	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	2	3	6	Identify requirements of external advisers and appoint appropriately. Annual review undertaken with Investment Advisor and Custodian. TREAT - Undertake annual review of Adviser;	Effective	2	2	4	

Pension Fund - Risk Register actions updates							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	
7.4	Reputation	Delays in implementation of decisions resulting in reducing the effectiveness of the decision and potentially adversely impacting on the ability to maximise investment returns	Competing priorities; Lack of resources.	Reducing the effectiveness of the decision; Potentially adversely impacting on the ability to maximise investment returns; Loss incurred or reduced income received.	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	3	3	9	Decisions minuted and appropriate staff assigned to implement; Agreed actions monitored by Democratic Services; Implementation timescales priorities according to risk levels and available resources levels; 3 year Business Plan developed and approved on an annual basis and monitored in year by Pension Fund Committee and Board. TOLERATE	Partially Effective	3	2	6	
7.5	Reputation	Ultra vires pension fund actions resulting in a failure to manage the pension fund properly	Fraudulent activity; Lack of skills and knowledge;	Failure to manage the Pension Fund properly; Financial loss; Reputation damage.	Ongoing	Exec Dir Finance & Regulatory	4	2	8	Training provided to Members and Officers to ensure legal framework understood; Use of external advisers and contact with SPPA. TOLERATE	Effective	2	1	2	
7.6	Reputation	Pension Fund does not fulfil its fiduciary duties with appropriate regard with its ESG responsibilities	Lack of skills & knowledge Lack of information from Managers Lack of clear policy	Failure to manage the Pension Fund properly; Financial loss; Reputation damage.	Ongoing	Exec Dir Finance & Regulatory	4	4	16	Training provided to Members and Officers on their roles and fiduciary responsibility; Monitoring on quarterly basis of Segregated Portfolios voting policy contained with Statement of Investment Principles including support for UNPRI. Responsible Investment policy approved and annual monitoring report completed TREAT - ESG workshop to be held prior to reviewing Responsible Investment Policy	Partially Effective	2	2	4	



PENSION FUND BUDGET OUT-TURN AS AT 31 MARCH 2021

Report by Executive Director Finance and Regulatory
**JOINT PENSION FUND COMMITTEE AND PENSION FUND
BOARD**

10 June 2021

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with a final out-turn position of the Pension Fund as at 31 March 2021.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets the standards a budget for financial year 2020/21 was approved on 10 March 2020 following the standard presentation recommended by the CIPFA accounting guidelines. This report is the final out-turn report of the approved budget.
- 1.4 The total expenditure to 31 March 2021 is £5.979m against a budget of £6.906m giving an underspend of £0.927m.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee:-**
 - (a) **Notes the actual expenditure to 31 March 2021**

3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 require Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against. The Fund is required to report compliance with these standards within its Annual Report. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 3.2 The 2020/21 budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 10 March 2020 and the 2021/22 budget on 4 March 2021. The approved budgets follow the Local Government Pension Scheme management costs guidance issued by CIPFA into the following 3 categories.

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

4 OUT-TURN POSITION 31 MARCH 2021

- 4.1 The table below shows the actual expenditure to 31 March 2021 and approved budget for 2020/21.

	Expend to 31 March 2021 £000's	2020/21 Budget £000's	2020/21 Variance £000's	2021/22 Approved Budget £000's
Investment Management Fees	5,309	6,198	(889)	6,420
Administration	352	408	(56)	378
Oversight & Governance	318	300	18	210
Total	5,979	6,906	(927)	7,008

- 4.2 Investment management fees are charged according to the individual Investment Management Agreements (IMAs). The fees are calculated as a percentage of the valuations and include transaction costs incurred. The underspend shown above is as a result of valuations increasing slower than anticipated when the budget was set and a reduction in transaction

costs during the year.

- 4.3 The budget variance in Administration for 2020/21 reflects an amendment to the training, testing and implementation phases of the Member Self Service project and the planned review of admission agreements due to COVID19. A revised delivery timeline for Member Self Service has been discussed and agreed with the software provider, working towards a go live during July 2021. The admission agreement review will also be completed during 2021/22.
- 4.4 The increase in costs for Oversight and Governance has resulted from additional work undertaken in the completion of the 2020 triennial valuation and the production of the revised Funding Strategy Statement which was completed and approved at the March meeting.

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 manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risk are managed in line with the Corporate Risk Management framework, with risks and controls monitored and reported on a quarterly basis.

5.3 Integrated Impact Assessment

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

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

Approved by

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

Author(s)

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

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 4 March 2021

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

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DRAFT ANNUAL REPORT AND ACCOUNTS 2020/21

Report by Executive Director Finance and Regulatory JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

10 June 2021

1 PURPOSE AND SUMMARY

- 1.1 **This report provided the Joint Committee and Board with an opportunity to scrutinize and approve the Draft Annual Report and Accounts for the Pension Fund for 2020/21 prior to their submission to the External Auditors.**
- 1.2 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specify the elements which must be contained in the Annual Report and Accounts, the list of these are contained in para 4.1. The draft Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 This report is presented to enable members of both the Pension Fund Committee and the Pension Fund Board to consider the draft Annual Report and Accounts for 2020/21(the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2021.
- 1.4 The draft Report and Accounts are still subject to statutory Audit, which will commence early July 2021. Following the statutory Audit process the final Report and Accounts will be submitted to the joint Committee and Board to review and of recommendation for approval.

2 STATUS OF REPORT

- 2.1 Due to the timing of the availability of valuations the report is currently undergoing consultation. Comments received from the consultation will be reported at the meeting.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Committee ;**
 - a) Notes the Draft Annual Report and Accounts 2020/21 and;**
 - b) Approve their submission for review by the External Auditors, Audit Scotland**

4 BACKGROUND

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

5 ANNUAL REPORT AND ACCOUNTS 2020/21

- 5.1 The draft Annual Report and Accounts for 2020/21 (the Annual Report) is attached at **Appendix 1**. The Annual Report will also be submitted to Audit and Scrutiny Committee on the 29 June 2021 for review prior to submission to the external auditors, Audit Scotland, by 30 June 2021. .
- 5.2 The Annual Report will also be made available for public inspection for a 3-week period commencing 30 June 2021.
- 5.3 It should be noted that the Annual Report remains draft and the conclusion of the year end including the external audit may result in changes to it.
- 5.4 The Committee will receive a copy of the final report at the end of the statutory external audit process prior to its submission to Council and publication.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this proposal.

6.2 Risk and Mitigations

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

6.3 Integrated Impact Assessment

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

6.4 Sustainable Development Goals

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

6.5 Climate Change

There are no direct climate change impacts as a result of this report.

6.6 Rural Proofing

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

6.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

6.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

7 CONSULTATION

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

Approved by

David Robertson
Executive Director Finance & Regulatory

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Committee and Board 22 June 2020

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SCOTTISH BORDERS COUNCIL PENSION FUND

UNAUDITED ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR TO 31 MARCH 2021

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

CONTENTS

		Page
Section 1	Introduction	
	Chairman's Report	4
	Management Commentary	5
	Key Trends	11
Section 2	Governance	
	Scheme Administration	13
	Scheme Governance	13
	Risk Management	15
	Training Policy & Practice Statements	16
	Annual Governance Statement	17
	Annual Governance Compliance Statement	22
Section 3	Financial Statements	
	Statement of Responsibilities	28
	Fund Account	30
	Net Asset Statement	31
	Notes to the Accounts	32
Section 4	Administration	
	Administration Strategy	62
	Administration Performance	62
	Fund Membership	64
	Communications Policy and Performance	66
Section 5	Funding	
	Funding Strategy Statement	69

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

	Actuarial Statement	70
Section 6	Investment	
	Statement of Investment Principles	73
	Investment Strategy	74
	Investment Performance	78
	Responsible Investment	80
Section 7	Independent Auditor's Report	83

Contacts

SECTION 1

INTRODUCTION

Scottish Borders Council Pension Fund

Annual Report and Accounts for the year to 31 March 2021

CHAIRMAN'S REPORT

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2021.



This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in financial year 2020/21.

Highlights of the Year

Pension Fund Committee/Pension Board

During this unprecedented year of COVID restrictions the Pension Fund Committee has managed to continue with its work taking forward key developments of work and maintaining business continuity enabled by online technology.

The Joint meetings of the Committee and Board moved to virtual meetings during 2020/21 ensuring all necessary governance and decision making continued. All Members fully engaged successfully with new ways of working online, including fully meeting their individual training requirements.

The Investment and Performance Sub-Committee, met all of the Fund's investment managers during the year, which allowed the committee full scrutiny and oversight of the assets under management. Additional meetings were also held focused on key areas of risk resulting from the pandemic.

Funding

The Fund completed its 2020 Triennial valuation resulting in a funding position of 110%. Following discussion with the Fund Actuary employer contribution levels were maintained at the same level for the next 2 years, despite uncertainties arising from court cases, such as the McCloud judgement and the LGPS cost cap mechanism. The strong performance of the Fund's investments over the last 3 years has resulted in this continued strong funding position.

Investment Assets

The market crash in March 2020 resulting from Covid-19 uncertainty was fully recovered during the

year to 31 March 2021 with the Fund returning a positive 20.1% against the benchmark of 18.3%. Investment values consequently increased by £147.5m during the year, with continued good progress being made with respect to the implementation of the asset strategy.

Statement of Responsible Investment

The Committee believes that a positive approach to Environmental, Social and Governance (ESG) issues can positively affect the investment performance of the Fund. Progress continued to be made during the year with the implementation of the Fund's agreed Responsible Investment Policy. The second annual ESG monitoring report showed that 99.5% of the Funds' assets were managed by United Nations Principles of Responsible Investment (UNPRI) signatories. The Fund continues to work with all its managers to ensure ESG is fully integrated into all their investment decisions.

The Fund transitioned all its investments with Morgan Stanley during the year to its Global Sustain Fund which excludes tobacco, alcohol and stocks in carbon polluting businesses and continued to support the Climate Action 100+ initiative, as a signatory. The initiative is actively working to ensure the Paris Agreement on climate change targets are met.

Pensions Administration

Key targets have been met by the Pension Administration team with 100% of annual benefit statements distributed within the required timescales, the Funding Strategy Statement fully updated and an Admission Policy approved with the inclusion of a new cessation policy.

Covid-19 has brought new challenges, which the service has met, with good progress made on the delivery of actions set out in the Pension Fund's business plan. All payments to pensioners continued to be paid on time and queries were responded to in the usual manner.

Acknowledgement

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

Chairman, Pension Fund Committee
Scottish Borders Council

MANAGEMENT COMMENTARY SUMMARY

OVERVIEW OF FUND BUSINESS

Under the statutory provision of the Local Government Pension Scheme Scottish Borders Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund – Scottish Borders Council Pension Fund (“the Fund”).

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by employee members and by participating employers. The Fund also receives income from its investments, which includes equities, bonds, property, infrastructure, private credit and diversified alternatives.

The Fund operates under the regulations of the Local Government Pension Scheme, which is a public-sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public-sector pension scheme. Teachers are not included as they have a separate national pension scheme.

STRATEGY AND OBJECTIVES

Scottish Borders Council Pension Fund’s primary aim is “to provide for members, pension and lump sum benefits on their retirement or for their dependants, benefits on death before or after retirement, on a defined benefits basis”. All the longer term policies, objectives and strategies of the Fund reflect this aim.

The Scottish Borders Council Pension Fund Committee agree all polices and strategies. Scrutiny of these decisions are provided by Scottish Borders Council Pension Fund Board. All key polices and strategies are located on the Fund’s website.

KEY NUMBERS OF THE FUND

- Total membership of 11,664 (11,338 in 2019/20)
- Total pension paid £25.1m (£23.6m 2019/20)
- Total contributions received £20.6m (£19.8m 2019/20)
- Total investments held £859.7m (£712.3m 2019/20)
- Investment performance of 20.1% for 2020/21 (-1.7% 2019/20)

GOVERNANCE

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

As required within the Local Government Pension Scheme (Government)(Scotland) regulations the Fund has an established Pension Fund Board which meets jointly with the Pension Fund Committee. The Pension Fund Board is responsible for assisting the Fund in securing compliance with the regulations and other legislation relating to the administration and governance of the Fund. The Pension Fund Board has 4 members representing the employers and 4 trade union members representing the employees.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

The Fund, annually, agrees a three year business plan which sets out the action plan to deliver the key work areas identified to ensure objectives continue to be met. The actions are monitored and reported to the Joint Pension Fund Committee and Pension Fund Board. The key actions completed in 2020/21 were:-

- Completion of 2020 triennial valuation and setting of stable contribution rates.
- Full review and update of the Funding Strategy Statement with inclusion of new cessation policy.
- Completion of the agreed training programme for all members of the Pension Fund Committee and Pension Fund Board.
- Completion of a review of the Communication Strategy and continued engagement with employers.
- Completion of a procurement exercise for the appointment of an Investment Advisor resulting in reappointment of Isio.
- Robust monitoring and reporting of investment performance and Responsible Investment Policy completed
- Full review of the Funds with-holding taxation position completed on all investment assets
- Good progress was also made for implementation of a new self-service facility for members which will go live in 2021

The Fund has agreed the following key areas of development and improvement within its 2021/22 Business Plan.

- Review of all forms of communication material.
- Implementation of members self service facility via online portal
- Employer covenant review
- Improvement of systems to support home working
- Review of the Stewardship Code
- Review of the Funds strategic asset allocation following the 31 March 2020 valuation.
- Review of services provided by IT providers to ensure data is secure and adheres to cyber security requirements.
- Review of Responsible Investment Policy

RISKS AND UNCERTAINTIES

Awareness and management of risks is a key control of the Funds strategic and operational activities. The Pension Fund is committed to a strong control environment to ensure risks are identified, understood, managed and monitored appropriately.

A full risk register is maintained by the Fund in line with CIPFA guidance and the Council's approach to risk management. Each risk identified is assessed to likelihood and impact with no controls in place and after controls are applied. Further controls identified and progress monitored and reported to the Joint Pension Fund Committee and Pension Fund Board on quarterly basis as part to Risk update reports. The Fund currently has 51 identified risks spread over Assets & investments, Employer, Resource & skill, Liability, Administrative, Regulatory &

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

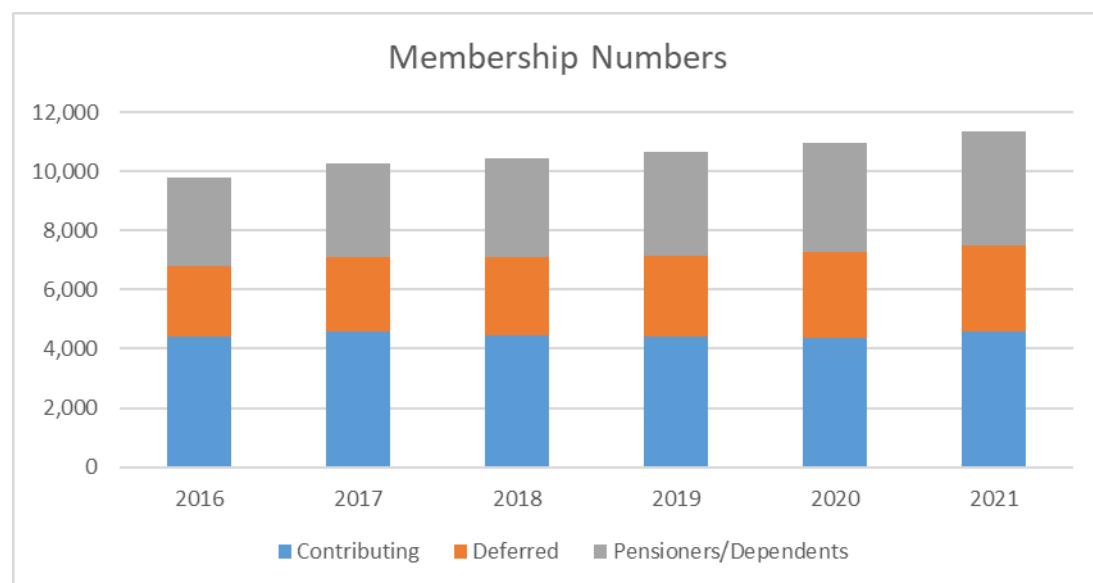
Compliance and Reputation. There is one risk remaining as a red assessment at 31 March 2021 which is “Legislation and other regulatory framework changes impacting on the Fund”. The Fund is managing and monitoring this risk by ensuring it actively participates in all consultations and keeps abreast of all legislative and regulatory changes.

ADMINISTRATION AND MEMBERSHIP

The Pension Administration Strategy sets out the performance standards required by both Scottish Borders Council, as the administering authority and all employers of the Fund. The performance of the Fund against these standards is reported on an annual basis to the Joint Pension Fund Committee and Pension Fund Board. Performance against key performance indicators were very good with all targets being met, all contributions being received on time and no regulatory breaches which required to be reported to the Pension Regulator.

The Fund has paid pensions benefits of £25.1m during the year (£23.6m in 2019/20) and received contributions of £20.6m (£19.8m in 2019/20). The Fund has continued to mature with net withdrawals for dealing with members increasing to £6.6m during 2020/21 compared to £5.3m in 2019/20, the increase in the new withdrawals has been funded by increased income from investment returns. Throughout the Covid-19 crisis, pensions have been paid on time and contributions have been collected in accordance with scheme regulations in all instances. The ability for staff to work from home has allowed the administration function to continue to perform as normal through the adoption of alternative working practices.

The maturing nature of the Fund is reflected in the membership numbers which are shown in the table below. Overall members at 31 March 2021 increased during the year to 11,664 but active contribution members now only represent 40% of the membership compared to 45% at 31 March 2016. The continued decrease in active members has resulted in the Fund looking to its investments to provide income to ensure cash is available to pay the pensions as they are due.



During the year there was one bulk transfer which saw all members for Visit Scotland transferring from the Fund to Lothian Pension Fund. This reduced the membership numbers by seven

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

pensioners, one active members and eight deferred members and the transfer of assets and liabilities valuing £1.8m.

COMMUNICATION

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

Due to Covid-19 the annual employer meeting was held virtually with additional information being shared virtually. Information was posted on the website for both members and employers including information on the Shared Costs AVC, pension increases, guidance on how to sign up to online access for payslips and all publications such as the Annual Report. The number of hits recorded on the website spiked during May and June 2020 during the height of the pandemic.

FUNDING

The recently completed three yearly Actuarial Valuation for 31 March 2020 was completed recently which resulted in a funding position of 110% (114% at 31 March 2017) for the Fund. The next formal valuation of the Fund will be as at 31 March 2023. Interim monitoring was undertaken between the 2017 valuation and during the completion of the recent valuation. Monitoring of the funding position will continue to be undertaken on a quarterly basis and reported to the Pension Fund Committee.

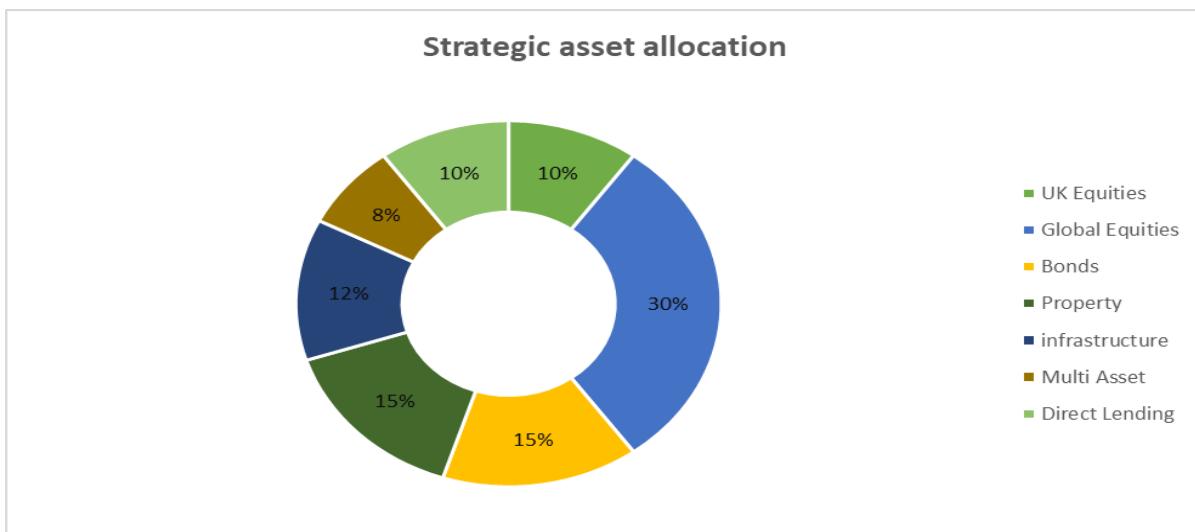
Uncertainties caused by GMP reconciliation, the scheme costs cap mechanism and legal challenges on the grounds of age discrimination, arising from the McCloud judgement may have an impact on the funding position. The 2020 valuation has included allowance for McCloud but not cost cap. The impact of any changes required due to the costs cap mechanism are currently unknown and therefore not able to be valued.

The Funding Strategy Statement approved on 4 March 2021 sets out the approach to funding. Further detail can be found in section 4 of the report and the full version of the Funding Strategy Statement is available via the Scottish Borders Council Pension Fund website.

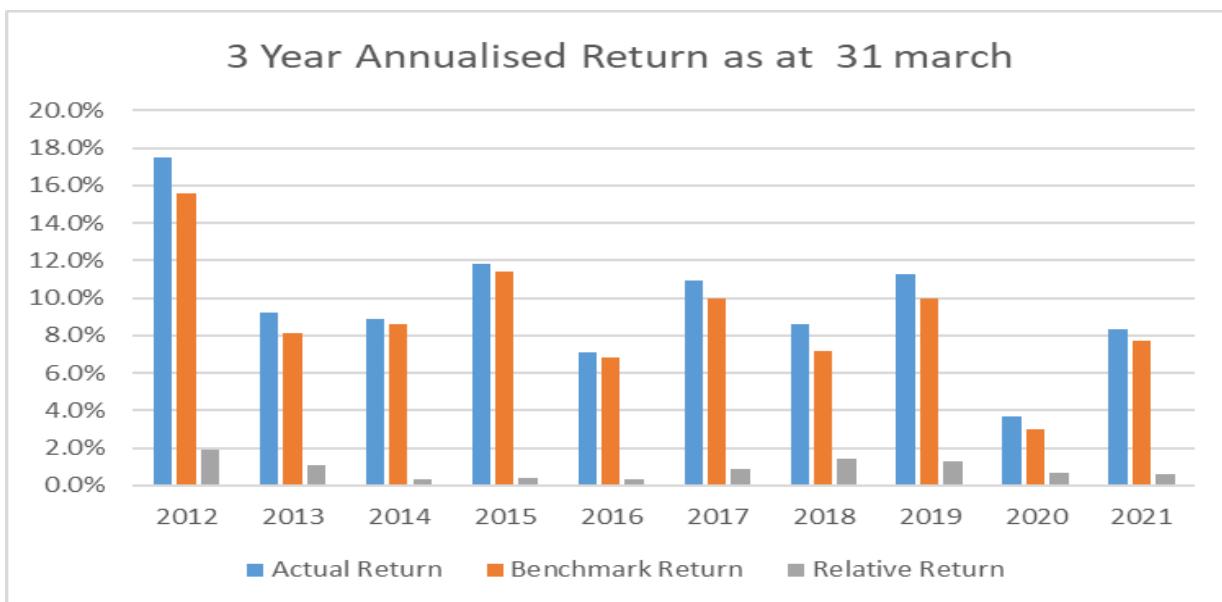
INVESTMENTS RETURNS

The Fund's investment objective is to support the Funding Strategy by adopting an investment strategy and structure, which incorporates an appropriate balance between risk and return. Following the 2017 Triennial Valuation of the Fund approved the asset allocation shown over, which spread investments over a number of key asset markets spreading the risk and increasing the diversification of the Fund. A further review of the asset allocation is planned for 2021/22 following the 2020 Triennial Valuation.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021



The Fund's investment returns delivered a very positive return of 20.1% during 2020/21 (-1.7% 2019/20) against a benchmark of 18.3% (-1.9% 2019/20) for the year to 31 March 2021. The first quarter of the year saw investments in many areas start to return to pre Covid-19 levels. Investment returns have continued to improve throughout the year. The largest increase from 31 March 2020 levels was in the equity asset class which increased by £85m. Overall the Fund's assets increased by £147m from the 31 March 2021. The 2020/21 performance has fully offset the negative effect on investments values of Covid-19 allowing the Fund to maintain a positive 3 year annualised return once again outperforming the benchmark, as shown in the table below.



Investment markets during 2020/21 have at times been very volatile due the uncertainties around Covid-19 and the final Brexit agreement. Against this background the Fund, as a longer term investor, has retained confidence in the long term strategy set out in the Statement of Investment Principles. Work to fully implement the strategy has continued, with equity exposure decreasing and funds being investing in longer term illiquid assets such as infrastructure and infrastructure debt. The Fund has increased its infrastructure and infrastructure debt investment over the year by £11m

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

The Strategy has resulted in increased levels of investment income which has allowed the Fund to meet the increasing net withdrawal for dealing with payments to members, which increased to £6.6m compared to £5.3m in 2019/20.

ENVIRONMENTAL SOCIAL AND GOVERNANCE ISSUES

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

The Fund has, in line with its Statement of Responsible Investment Policy, completed its second annual monitoring report on all the Funds managers. 15 out of the 17 managers are signatories of UNPRI with the two remaining manager only representing 0.5% of the Fund's assets. The Fund has during the year declined investment opportunities offered by managers not signatories of UNPRI.

The Fund has also during 2020/21 transitioned a further £100m from the Morgan Stanley Global Brands Fund to their Global Sustain Fund which excludes tobacco, alcohol and stocks in carbon polluting businesses. The Fund continues to look for further opportunities to enhance its commitment to sustainability and climate change which will form a key criteria in future investment and procurement decision making.

CLIMATE ACTION 100+

The Fund as a signatory continued to support the work undertaken by Climate Action 100+ which is working with Investors and Fund Managers to reduce carbon emission and ensure the Paris Agreement targets are met. The three main aims are:-

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

ACKNOWLEDGMENT

The contribution and commitment of all elected members, employer and employee representatives and staff involved in ensuring the continued success of the Scottish Borders Council Pension Fund, particularly during this most challenging of years is gratefully acknowledged.

**David Parker
Chair**

Pension Fund Committee

**Netta Meadows
Chief Executive**

Scottish Borders Council

**David Robertson CPFA
Exec Director Finance &
Regulatory
Scottish Borders Council**

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

KEY TRENDS

Membership	2016/17	2017/18	2018/19	2019/20	2020/21
Active Members	4,466	4,409	4,376	4,573	4,647
Deferred Members	2,652	2,751	2,878	2,909	2,977
Pensioners	3,314	3,507	3,707	3,856	4,040
Total Members	10,432	10,667	10,961	11,338	11,664

Investments	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Opening Net Value	541,778	653,207	685,681	731,048	712,319
Movement in year	111,429	32,475	45,367	(18,728)	147,475
Closing Net Value	653,207	685,681	731,048	712,319	859,794
Investment Income	8,292	8,195	13,314	13,938	12,749
Investment Fees	3,051	8,192	5,848	5,296	5,310

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Administrative costs	(263)	(292)	(391)	(363)	(352)
Oversight & Governance costs	(241)	(233)	(289)	(263)	(318)
Pensions Income	19,447	19,610	20,647	21,200	21,737
Pensions Expenditure	(21,676)	(22,189)	(24,257)	(26,555)	(28,296)
Net Pensions Cash flow	(2,229)	(2,579)	(3,610)	(5,355)	(6,569)

SECTION 2

GOVERNANCE

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

SCHEME ADMINISTRATION

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

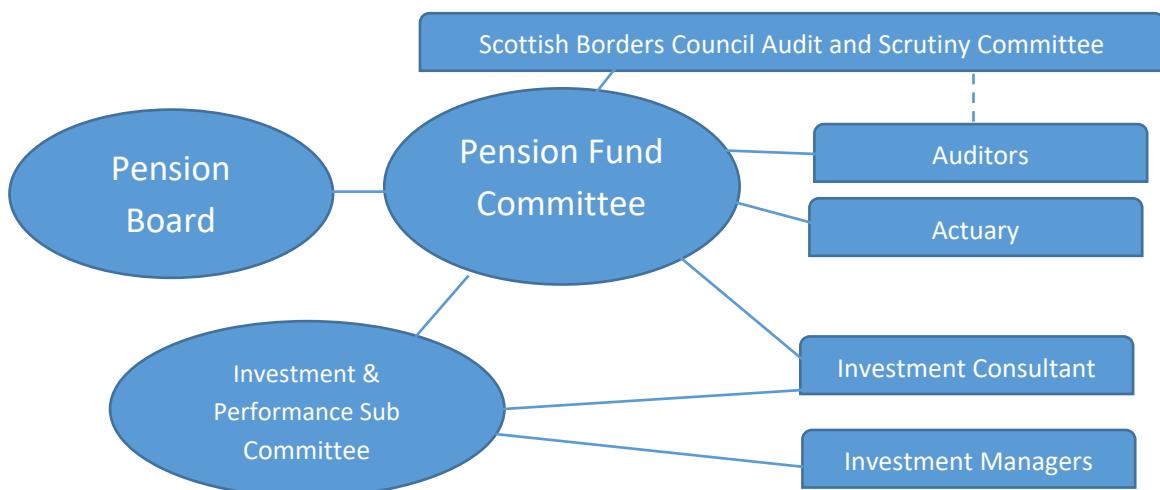
The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. The Fund adheres to Scottish Borders Council policies for managing conflicts of interests, codes of conduct and register of interests.

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

SCHEME GOVERNANCE

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

Scottish Borders Council Pension Fund Governance:-



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

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

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

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

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

Investment Managers – manage the investment portfolios.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

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

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

PENSION FUND COMMITTEE

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



Councillor David Parker - Chair



Councillor Simon Mountford – Vice Chair



Councillor Jim Brown



Councillor Gordon Edgar



Councillor Carol Hamilton



Councillor Donald Moffat



Councillor Sandy Scott

PENSION FUND BOARD

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

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

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

As at 31 March 2021 the Scottish Borders Council Pension Board membership comprised the following:-

Employer Representatives:

- Councillor Sandy Aitchison – Scottish Borders Council
- Hazel Robertson – Borders College
- Linda Ross – LIVE Borders
- Anthony Daye – South of Scotland Enterprise

Employee Representatives:

- David Bell – UNITE
- Malcolm Drysdale - GMB
- Marc Everett - UNISON
- Kay Marie Hughes – UNISON

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

INVESTMENT & PERFORMANCE SUB-COMMITTEE

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

RISK MANAGEMENT

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

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

A full risk review was undertaken in June 2020. All identified actions are monitored and reported on a quarterly cycle, with the addition of any new risks that have materialised during the intervening period from the full risk review.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

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

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	5	7	-	-	9	3
Employer	1	6	-	-	2	5
Resource & Skill	-	5	-	-	2	3
Liability	2	5	-	-	2	5
Administrative	-	8	-	-	1	7
Regulatory & Compliance	4	2	-	1	3	2
Reputation	2	4	-	-	2	4
Total Number of Risks	14	37	0	1	21	29

RED -Very High (15-25)
AMBER – High (6-12)
GREEN – Low (1-5)

The one risk remaining as a red assessment, as at 31 March 2021, is “Legislation and other regulatory framework changes impacting on the Fund”. The Fund is managing and monitoring this risk by ensuring it actively participates in all consultations and keeps abreast of all legislative and regulatory changes.

TRAINING POLICY & PRACTICE STATEMENT

The Council recognises the importance of ensuring that all staff and members, charged with the financial administration and decision making of the Scottish Borders Council Pension Fund, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to utilise individuals who are both capable and experienced. Training for staff and members of the Pension Fund Committee and Pension Board is provided to enable them to acquire and maintain an appropriate level of expertise, knowledge and skill.

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

The Training Policy applies to members of the Pension Fund Committee and the Pension Board. It requires all members to complete the Pension Regulator Toolkit within six months of joining the Board and to attend at least two training events a year. The Policy also requires an annual training plan to be agreed. The 2020/21 plan was approved on 22 June 2020 and was based on assessment returns completed by all members. The table below shows all members attended two or more events. All members have also completed the Pension Regulator Toolkit.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

Training attendance

No of events	Committee Members		Board Members	
	%	Number	%	Number
5	28.5	2	25.0	2
4	28.5	2	37.5	3
3	28.5	2	25.0	2
2	14.5	1	12.5	1

The training covered the following areas:

- Financial Markets and Investment Products
- Investment Concepts and Terminology
- Environmental, Governance and Social governance
- Fund governance and Stewardship
- Key Pension Administration issues
- Regulatory Environment

All members are also required to attend, as a minimum, two meetings of the joint Pension Fund Committee and Pension Board a year. The table below shows all members met this requirement for 2020/21. Due to a special meeting to approve the Funds response to the Scheme Advisory Board consultation an additional meeting was held.

No of meetings	Committee Members		Board Members	
	%	Number	%	Number
5	57.0	4	37.5	3
4	43.0	3	25.0	2
3	-	-	25.0	2
2	-	-	12.5	1

ANNUAL GOVERNANCE STATEMENT

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

The key document summarising the governance arrangements for the Pension Fund is the Governance Policy and Compliance Statement (as amended on 10 June 2021) which is available on the Council's website: [Governance Policy and Compliance Statement](#)

Governance Framework

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme for the Scottish Borders geographical area. The Council has acknowledged its responsibility for ensuring that there is a sound system of governance (incorporating the systems of internal control) and this is reflected in the Council's governance arrangements.
- b) The Council has delegated its responsibilities as Scheme Manager, to the Pension Fund Committee. The Members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund. The overall responsibility of ensuring there is a sound system of governance remains with the Chief Executive.
- c) The Pension Board meets jointly with the Committee, and formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business Plan covering the period 2020/21 – 2022/23, to improve planning and monitoring of the performance of the Fund and to demonstrate the "Myners Principle" relating to effective decision making. The Business Plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that is managed effectively, transparently and is compliant. The Business Plan ensures actions are included to address issues raised in the Annual Governance Statement.
- e) The Pension Fund appoints professional advisers and external service providers, covering investment advisory, custodian and actuarial services.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and Councillors embodied in procedural standing orders, financial regulations, Scheme of Delegation and Scheme of Administration. This is supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks and targets, and independent performance reviews of the Fund by the investment consultant and performance monitoring service provider.
- g) The Pension Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the Risk Register to regular review.
- h) The Executive Director Finance and Regulatory (Section 95 Officer) for the Council is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate professional advice is sought and is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.
- i) The Service Director Human Resources and Communications is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved Pension Administration Strategy.
- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Scrutiny Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

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

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles, details of which are set out in the Governance Compliance Statement 2020-21 (page 22 -26).

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

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

Internal Audit Opinion

The Chief Officer Audit & Risk's opinion is that the systems of internal control operating within the Scottish Borders Council Pension Fund during 2020/21 are adequate, and governance and risk management arrangements are effective

During 2020/21 the Internal Audit work included:

- An appraisal of the operation of corporate governance and risk management arrangements;
- A review of key controls including pension administration and financial management arrangements in place;
- A review of performance against objectives, including relevant performance information.

The Fund has effective governance arrangements in place through the joint meetings of the Pension Fund Committee and the Pension Fund Board that support scrutiny and transparency of decisions made. A Skills and Knowledge self-assessment is carried out annually by Members, a Training Plan is proposed to meet those needs, and Members' participation in training events is monitored to ensure Training policy commitments are met. Risk Management is fully embedded into the culture of the Pension Fund with evidence of risk deliberations in decision-making and regular reviews / updates of the Pension Fund risk register being carried out and reported to the joint meetings of the Committee and Board to demonstrate appropriate scrutiny and oversight of risk management.

Internal Audit work on Business World ERP System Key Controls, the findings from which were reported in Executive Summary format to the Council's Audit and Scrutiny Committee on 10 May 2021, included the testing of Pensioner Payroll payments. Specifically this confirmed that comprehensive assurance can be placed on key controls and processes to ensure that payroll transactions are valid, complete and accurate.

Best practice suggests that having a Business Plan for the Pension Fund was a good way of demonstrating compliance with the "Myners Principle" relating to effective decision making. The

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

Business Plan 2020/21 to 2022/23 for the Pension Fund was approved by the Joint Pension Fund Committee and Board on 22 June 2020. It identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund. A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Joint Pension Fund Committee and Board meeting on 11 December 2020. Quarterly Performance Updates are presented in private by the Investment Advisor at the joint Committee and Board meetings. Pension Administration Performance is reported annually to the joint Committee and Board for its inclusion in the Fund's Annual Report and Accounts.

The 2020/21 annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) demonstrates sufficient evidence that the Council's Internal Audit section conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards

Improvement Areas of Governance

The Committee agrees a three year business plan on an annual basis to ensure the ongoing management and development of the Fund is in line with the longer term policy, objectives and strategy of the Fund. The plan sets out the key actions and sets timescales of each. The progress of the actions are reported mid-year to the Committee. The actions completed from the 2020/21 business plan are as follows

- Robust monitoring and reporting of investment performance and Responsible Investment Policy completed.
- Triennial valuation completed and Employer contribution rates set for next three years
- Full review and approval of Funding Strategy Statement completed with inclusion of cessation policy
- Review of with-holding taxation position completed on all investment assets
- Review completed of Pension Administration Strategy, Communication strategy, Governance Policy and Compliance statement
- Successful completion of procurement exercise for Investment advisor

The following area have been identified and included in the 2021/22 action plan submitted to the Joint Pension Fund Committee and Board for approval. These will enhance the existing governance arrangements:

- Review of all forms of communication material.
- Implementation of self service facility
- Employer covenant review
- Improvement of systems to support home working
- Review of Stewardship Code
- Review of strategic asset allocation following the 31 March 2020 valuation.
- Review of services provided by IT providers to ensure data is secure and adheres to cyber security requirements.
- Review of Responsible Investment Policy

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

Impact of COVID-19

At the start of the global Covid-19 pandemic Scottish Borders Council agreed temporary decision making arrangements to minimise social contact during the pandemic. It was agreed all formal Council and Committee meetings be cancelled unless required for statutory reasons and additional powers delegated to the Chief Executive in consultation with Officers and Members. Business continuity plans were implemented with staff mainly working at home with full access to systems and files.

During 2020/21 all meetings were held virtually. The overall governance of the Fund remained in place with all meeting being held and papers and decisions being made available via the internet. All services have been fully maintained and all payments made in a timely manner. Investments which initially fell at the start of the pandemic bounced back quickly and additional monitoring meetings with Officers and fund managers to ensure risks are identified and mitigations measures are in place. A full review will be undertaken and future business continuity plans updated to reflect findings.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control, governance and risk management. The annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Policy and Compliance Statement (pages 22- 26)

**Councillor David Parker
Chairman
Pension Fund Committee**

**Netta Meadows
Chief Executive
Scottish Borders Council**

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

ANNUAL GOVERNANCE COMPLIANCE STATEMENT

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

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

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

Committee Membership and Representation

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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

Principle		Full Compliance	Comments
	the decision making process, with or without voting rights.		papers and access meetings.
Selection and role of lay members			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For Councillors this is part of the Council's Code of Governance along with the Members' induction programme. In addition, the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within six months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of the Council's Code of Governance requires the declaration of Members' interests for all committees as a standard agenda item.
Voting			
A	The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Pension Board's Constitution
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses	Yes	Councillors expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of training related expenses.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

Principle		Full Compliance	Comments
	in respect of members involved in the decision-making process.		
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The training policy for all members of the Pension Board and Pension Fund Committee is approved annually at the joint meeting in June.
C	The administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Annual Training Plan produced and implemented with logs of training attendance maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meetings of the Pension Fund Committee and Pension Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the main committee dates.	Yes	The Investment Sub-Committee meets every four months between the joint Committee/Board meetings.
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	The Pension Board formally provides for stakeholders' engagement.
Access			
A	Subject to any rules in the Council's Constitution, all members of main and secondary committees or	Yes	Papers sent to all Committee/Board members as detailed in the Scheme of Administration.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

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

SECTION 3

FINANCIAL STATEMENTS

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

STATEMENT OF RESPONSIBILITIES

COUNCILS RESPONSIBILITIES

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

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

EXECUTIVE DIRECTOR FINANCE & REGULATORY RESPONSIBILITIES

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

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

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

The Executive Director Finance & Regulatory has also:

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

I certify that the financial statements give a true and fair view of the financial position of Scottish Borders Council Pension Fund as at 31 March 2021 and the transactions of the Fund for the year then ended.

David Robertson
Executive Director Finance and Regulatory
Scottish Borders Council

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

FUND ACCOUNT for year ending 31 March 2021

2019/20 £'000		2020/21 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
19,830	Contributions	20,666	7
1,370	Transfers in from other pension funds	1,061	8
21,200		21,727	
(23,635)	Benefits	(25,157)	9
(2,920)	Payments To And On Account Of Leavers	(3,139)	10
(26,555)		(28,296)	
(5,355)	Net Additions/(Withdrawals) from Dealings with Members	(6,569)	
(5,922)	Management expenses	(5,979)	11
	Return on Investments:		
13,938	Investment Income	12,749	12
(22,587)	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	146,680	14
(115)	Taxes on Income	(45)	
(8,764)	Net Return on Investments	159,384	
(20,041)	Net Increase/(Decrease) in the Fund during the Year	146,836	
732,899	Opening Net Assets of the Scheme	712,858	
712,858	Closing Net Assets of the Scheme	859,694	

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

NET ASSET STATEMENT as at 31 March 2021

2019/20 £'000		2020/21 £'000	Notes
713,000	Investment Assets	860,013	14
(681)	Investment Liabilities	(219)	14
712,319	Total net investment	859,794	
	Current Assets & Liabilities		
2,487	Current Assets	2,614	21
(1,948)	Current Liabilities	(2,714)	22
539		(100)	
712,858	Net Assets of the Fund available to fund benefits at the period end	859,694	

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

David Robertson CPFA
Executive Director Finance and Regulatory

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

NOTES TO THE ACCOUNTS

1 DESCRIPTION OF THE FUND

A) General

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

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

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

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

Organisations participating in the Fund include:

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

B) Funding

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

The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions. For 2020/21 this was based on the valuation undertaken as at the 31 March 2020, as amended by specific changes, agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2020/21 ranged from 18% to 21.1%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2021. From 1 April 2015 these contributions are based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

C) Benefits

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

The table below gives a summary of the scheme benefits:

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

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

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

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 20120/21 financial year and its position as at the 31 March 2021. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the *Local Government Pension Scheme Fund Accounts 2020/21 - example accounts and disclosure checklist* published by the Chartered Institute of Public Finance Accountants (CIPFA).

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

The accounts have been prepared on a going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

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

Contributions Income

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

Transfers to and from other schemes

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

Investment Income

i) Interest income

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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Benefits Payable

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

Taxation

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

Administration Expenses

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

Investment Management Expenses

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

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

Net Assets Statement

Valuation of Investments

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

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the close of business on 31 March.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

- Unquoted investments – directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Pooled investment vehicles – are valued at bid price on the close of business on 31 March.
- Private equity/debt and infrastructure assets are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

The processes of the fund managers, who are listed in Note 14c, (page 62) are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

Foreign Currency Transactions

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

Derivatives

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

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

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

Cash and Cash Equivalents

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

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme Actuary in accordance with the requirements of International Accounting Standards (IAS) 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20, page 57).

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life to act as AVC provider. AVCs are paid to the AVC provider by employees and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

Accounting Standards that were issued but not yet adopted.

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

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed Actuary (currently Hymans Robertson), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised on page 55. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the financial statements at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 20, page 57).	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson is	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none">- A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £104m

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

	<p>engaged to provide the Fund with expert advice about the assumptions to be applied.</p>	<ul style="list-style-type: none"> - A 0.5% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £91m - A 0.5% increase in the long-term rate of salary increase would increase value of the liabilities by £11m, and - A 0.25% increase in assumed life expectancy would increase the liability by £5m <p><i>Source – IAS26 report 2021</i></p>
Portfolio of Level 3 assets held	<p>Level 3 assets are those which do not have observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. There is, however a degree of estimation involved in the valuations.</p>	<p>The total assets held in Level 3 £245.9m and include Private Credit, Property, Infrastructure and Alternatives. There is a risk that this investment may be under or overstated in the accounts. Based on historical data and current market trends actual valuation could be between £276.4m and £215.4m</p>

COVID 19 – Property

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

6 EVENTS AFTER THE REPORTING DATE

There are no known events since 31 March 2021 which directly affect these accounts.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

7 CONTRIBUTIONS RECEIVABLE

2019/20			2020/21		
Employers £'000	Members £'000	Total £'000	Employers £'000	Members £'000	Total £'000
14,889	4,845	19,734	Normal	15,500	5,135
81	-	81	Special/Pension Fund Strain	-	-
-	15	15	Additional Voluntary	-	31
14,970	4,860	19,830	Total	15,500	5,166
					20,666

2019/20 £'000	2020/21 £'000
15,532	Administering Authority
856	Scheduled Bodies
3,442	Admitted Bodies
19,830	20,666

8 TRANSFERS IN

There were no group transfers in to the scheme during 2020/21 or 2019/20 and the total of £1.061m (2019/20: £1.370m) represents the total of transfer values in respect of individual members joining the scheme.

9 BENEFITS PAYABLE

2019/20 £'000	2020/21 £'000
18,953	Pension Payments
3,779	Commutation and lump sum retirement benefits
903	Lump Sums death benefits
23,635	25,157

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

2019/20		2020/21
£'000		£'000
21,465	Administering Authority	22,918
676	Scheduled Bodies	438
1,494	Admitted Bodies	1,801
23,635		25,157

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2019/20		2020/21
£'000		£'000
74	Refunds to members leaving service	49
2,846	Individual Transfers	1,286
	Group Transfers	1,804
2,920		3,139

The group transfer in 2020/21 represents the move of Visit Scotland members to Lothian Pension Fund.

11 MANAGEMENT EXPENSES

2019/20		2020/21
£'000		£'000
363	Administrative costs	352
5,296	Investment management expenses	5,310
263	Oversight and governance costs	318
5,922	Total	5,980

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

11(a) Investment Management Expenses

2020/21	Total	Management fees	Transaction cost
	£'000	£'000	£'000
Equities	1,027	738	289
Pooled Investments	2,917	2,415	502
Private Equity/Infrastructure	722	620	102
Property	560	232	328
Total	5,226	4,005	1,221
Custody fees	84		
Total	5,310		
2019/20	Total	Management fees	Transaction cost
	£'000	£'000	£'000
Equities	807	715	92
Pooled Investments	3,041	2,453	588
Private Equity/Infrastructure	638	322	316
Property	719	329	390
Total	5,205	3,819	1,386
Custody fees	91		
Total	5,296		

12 INVESTMENT INCOME

2019/20 £'000		2020/21 £'000	
3,356	Dividends from equities	2,571	
5,527	Income from Pooled Investment vehicles	6,521	
4,902	Income from Pooled Property Investment vehicles	3,657	
153	Interest on Cash Deposits	0	
13,938		12,749	

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

13 OTHER FUND ACCOUNT DISCLOSURES

13(a) External Audit Costs

In 2020/21 the agreed audit fee for the year was £21,510 (2019/20 £21,040). The external auditor is Audit Scotland.

14 INVESTMENTS

Market Value at 31 March 2020 £'000		Market Value at 31 March 2021 £'000
Investment Assets		
164,635	Equities	217,762
329,466	Pooled Investments	462,712
97,461	Pooled Property Investments	95,298
58,458	Private Equity/Infrastructure	69,690
50,583	Diversified Alternatives	-
-	Derivative Contracts	-
11,021	Cash Deposits	13,132
1,151	Investment Income Due	994
225	Amounts receivable for sales	425
713,000	Total Investment Assets	860,013
Investment Liabilities		
(681)	Amounts payable for purchases	(219)
712,319	Net Investment Assets	859,794

14(a) Reconciliation of Movement in Investment and Derivatives

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

	Opening Market Value 1/4/2020 £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value 31/3/2021 £'000
Equities	164,635	59,151	(93,712)	87,688	217,762
Pooled Investments	329,466	32,640	(9,101)	109,708	462,713
Pooled Property Investments	97,461	813	-	(2,976)	95,298
Private Equity/Infrastructure	58,458	9,714	(1,654)	3,173	69,691
Diversified Alternatives	50,583	-	-	(50,583)	-
Derivative Contracts	-	1	(10)	9	-

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

	700,603	102,319	(104,477)	147,019	845,464
Other Investment Balances					
Cash Deposits	11,021			(212)	13,132
Amount receivable for sales	225				424
Investment Income due	1,151				993
Spot FX Contract	-			(127)	1
Amount Payable on Purchase	(681)				(220)
Net Investments	712,319			146,680	859,794

Significant Transactions during the year:

The Fund continued to implement the Investment Strategy approved on 13 September 2018. Equity funds have been reduced and invested into inflation linked assets such as Infrastructure and Private Credit. The diversified alternatives fund previously a segregated fund following a review was moved in full to a pooled fund with the same Manager covering the same asset classes.

14(b) Investment Analysed by Fund Managers

Investment Management was undertaken on behalf of the Fund during the financial year by 17 firms of investment managers, these are shown below. The Fund has also during 2020/21, continued to make investments into infrastructure via collaborative working with Lothian Pension Fund and directly with Macquarie. As at 31 March 2021 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-20		31-Mar-21	
£'000	%	£'000	%
44,037	6.2	UBS	Pooled Fund -UK Equities
29,683	4.2	Baillie Gifford	UK Equities
137,839	19.4	Baillie Gifford	Global Equities
98,719	13.9	Morgan Stanley	Pooled Fund - Global Equities
92,086	12.9	M&G	Pooled Fund - Diversified Income
42,304	5.9	M&G	Pooled Fund - Bonds
38,475	5.4	UBS	Pooled Fund -Property
59,880	8.4	Blackrock	Pooled Fund – Property

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

50,583	7.1	LGT	Pooled Fund - Alternatives	59,823	7.0
23,494	3.3	Partners Group	Pooled Fund – Private Credit	27,424	3.2
27,736	3.9	Permira	Pooled Fund – Private Credit	24,728	2.9
2,755	0.4	Alinda	Infrastructure	3,100	0.4
3,065	0.4	KKR	Infrastructure	3,449	0.4
1,329	0.2	Infrared	Infrastructure	1,226	0.1
11,236	1.6	Dalmore	Infrastructure	13,595	1.6
1,340	0.2	Brookfield	Infrastructure	1,421	0.2
1,100	0.1	Macquarie	Infrastructure	1,636	0.2
1,500	0.2	Equitix	Infrastructure	1,701	0.2
2,474	0.4	Gaia	Infrastructure	2,162	0.3
1,612	0.2	Oaktree	Infrastructure	2,342	0.3
32,047	4.5	Macquarie	Pooled Fund -Infrastructure Debt	39,059	4.5
9,025	1.3	Internal	Internally Managed Cash & Investments	8,488	0.9
712,319				859,794	

The benchmarks and performance targets for each manager as at the 31 March 2021 are contained in the Statement of Investment Principles published on the Pension Fund website.

Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2021. Each of the investments comprises units in a managed fund.

	As at 31 March 2020		As at 31 March 2021	
	£'000	% of Fund	£'000	% of Fund
M&G Alpha Opportunities Fund	92,086	12.9	116,311	13.5
M&G Index Linked	42,304	5.9	62,691	7.3
Morgan Stanley Global Brands Fund	98,719	13.9	118,407	13.8
Blackrock – Long Lease Property	59,880	8.4	58,181	6.8
LGT Crown SBC Segregated Portfolio	50,583	7.1	59,823	7.0
UBS UK Passive Equities	44,037	6.2	51,592	6.0

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

Fund Performance

The total Fund return for the year was 20.1% with a relative return over benchmark of 18.3%. Over three years the Fund has generated an annualised return of 8.3% per annum, with a relative return over benchmark of 7.7% per annum. Further information on this is contained in- Investments page 78.

14 (c) Stock Lending

The Fund may participate in the stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2021 stock with a market value of £24.5m was on loan.

14(e) Property Holdings

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

15 ANALYSIS OF DERIVATIVES

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

Settlements	Currency Bought	Local Value £000's	Currency Sold	Local Value £000's	Asset Value £000's	Liability Value £000's
Under 1 month	GBP	0	0	0	0	0
Open forward currency contracts at 31 March 2021					0	0
Net forward currency contracts at 31 March 2021					0	0
Open forward currency contracts at 31 March 2020					0	0
Net forward currency contracts at 31 March 2020					0	0

16 FAIR VALUE BASIS OF VALUATION

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

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

16(a) Fair Value Hierarchy

Values as at 31 March 2021	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £'000	Level 2 £'000's	Level 3 £'000's	£'000's
Financial assets at fair value through profit & loss				
Equities	217,762			217,762
Pooled Investments	349,001	2,972	110,739	462,712
Pooled Property Investments		29,795	65,503	95,298
Private Equity/Infrastructure			69,691	69,691
Cash Deposits	13,132			13,132
Other Investment assets		2		2
Investment Income due	990	3		993
Amounts receivable for sales		424		424
Net Investment Assets	580,885	33,196	245,933	860,014
Financial liabilities at fair value through profit & loss				
Payable for investment purchase		(220)		(220)
Total	580,885	32,976	245,933	859,794

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

Values as at 31 March 2020	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £'000	Level 2 £000's	Level 3 £000's	£000's
Financial assets at fair value through profit & loss				
Equities	164,635			164,635
Pooled Investments	277,203	1,092	104,921	383,216
Pooled Property Investments		31,314	62,980	94,294
Private Equity/Infrastructure			58,458	58,458
Cash Deposits	11,021			11,021
Investment Income due	1,151			1,151
Amounts receivable for sales		225		225
Net Investment Assets	454,010	32,631	226,359	713,000
Financial liabilities at fair value through profit & loss				
Payable for investment purchase		(681)		(681)
Total	454,010	31,950	226,359	712,319

16(b) Transfers between Levels 1 and 2

There have been no funds transferred from level 1 to level 2 during the year.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

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

	Market Value 1 April 2020 £'000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2021 £'000
Alternatives	50,583		(50,583)	(11,200)	11,200	-
Overseas Equity	8,508	2,541	(1,321)	(227)	484	9,985
Private Credit funds	51,230	3,998	(5,099)	787		50,916
UK Property	66,088	1,200		(1,783)		65,505
Overseas Venture Capital	49,950	7,257	(333)	2,831		59,705
UK Venture Capital		50,583		9,239		59,822
Total	226,359	65,579	(57,336)	(353)	11,684	245,933
	Market Value 1 April 2019 £'000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2020 £'000
Alternatives	51,678	-	-	(1,095)	-	50,583
Overseas Equity	2,450	5,887	(859)	779	251	8,508
Private Credit	47,611	11,489	(6,697)	(1,173)	-	51,230
UK Property	66,181	750	-	(843)	-	66,088
Overseas Venture Capital	18,999	34,600	(1,722)	(1,895)	(32)	49,950
Total	186,919	52,726	(9,278)	(4,227)	219	226,359

Transfers to level 3 reflect the investment into Infrastructure as part of the implementation of the revised Investment Strategy.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

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

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

Sensitivity of Assets Valued at Level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

	Assessed valuation range (+/-)	Value at 31 March 2021 £'000	Value on increase £'000	Value on decrease £'000
Diversified Alternatives	22.0%	59,822	72,984	46,662
Overseas Venture Capital	12.0%	10,467	11,724	9,213
Private Credit	10.5%	50,917	56,263	45,570
UK Property	8.6%	65,504	71,110	59,897
UK Venture Capital	8.7%	59,223	64,371	54,075
Total		245,933	276,452	215,417

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

17 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

31 March 2020				31 March 2021		
Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000		Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000
Financial assets						
164,635	-	-	Equities	217,762		
329,466	-	-	Pooled Investments	462,712		
97,461	-	-	Pooled Property Investments	95,298		
58,458			Infrastructure	69,691		
50,583			Diversified Alternatives			
	11,021		Cash		13,132	
	1,151		Other Investment balances		995	
	225		Debtors		424	
700,603	12,397	-		845,463	14,551-	-
Financial Liabilities						
-	-	-	Derivative Contract			
-	-	-	Other investment balances			
-	-	(681)	Creditors			(220)
-	-	-				
700,603	12,397	(681)	Total	845,463	14,551	(220)
712,319						859,794

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

17 (a) Net Gains and Losses on Financial Instruments

31 March 2020 £000		31 March 2021 £000
	Financial assets	
(22,738)	Designated at fair value through profit & loss	146,959
153	Loans & receivables	
-	Financial Liabilities	
-	Fair value through profit & Loss	9
(2)	Loans & receivables	(288)
(22,587)	Total	146,680

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

18 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

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

Responsibility for managing the Fund's risk rests with the Pension Fund Committee. A Risk Register for the Fund has been established to identify and analyse the risks that the Fund faces and the key messages from this process are covered in the Risk Management Statement on page 15. The Market Risk and Credit Risk aspects below come under the risk category of Assets and Investment in the Risk Register, whilst Liquidity Risk is a separate category of risk. In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

Market Risk

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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

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

Other Price Risk

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

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

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

Other Price Risk – Sensitivity Analysis

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

Asset Type	Potential Market Movement %
UK Equities	20.3
Global Equities	20.5
UK Bonds	11.5
Property	10.0
Alternatives	10.4
Cash	1.0

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

Asset Type	Value as at 31 Mar 21 £'000	+/- % Change *	Value on Increase £'000	Value on Decrease £'000
UK Equities	112,771	20.3	135,663	89,878
Global Equities	282,502	20.5	340,414	224,589
UK Bonds	179,002	11.5	199,588	158,417
Property	95,402	10.0	104,942	85,861
Alternatives	181,665	10.4	200,558	162,772
Cash	8,453	1.0	8,538	8,367
Total Assets	859,795		989,703	729,884

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

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	At 31 March 2020	At 31 March 2021
	£'000	£'000
Cash and Cash Equivalents	13,258	10,091
	13,258	10,091

Interest rate risk sensitivity analysis

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

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

Asset Type	Value as at 31 Mar 21 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	10,091	100	(100)

Currency Risk

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

The following table summarises the Fund's currency exposure at 31 March 2021:

Currency exposure by asset type	As 31 March 2021	
	£'000	
Overseas Equities	150,377	
Overseas Fixed Income Funds	116,311	
Overseas Equity Funds	178,230	
Overseas venture capital	9,985	
Total	454,903	

Currency risk – sensitivity analysis

Asset Type	Value as at 31 Mar 21 £'000	+/- % Change *	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	150,377	9.4%	164,513	136,242
Overseas Fixed income	116,311	8.4%	126,081	106,541
Overseas Equity Funds	178,230	9.4%	194,983	161,476
Overseas venture capital	9,985	9.0%	10,884	9,086
Total Assets	454,903		496,461	413,345

Credit Risk

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

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

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2020, including current account cash, was £2.2m (31 March 2019: £2.54m). This was held with the following institutions:

	Rating	Balance at 31 March 2020 £'000	Balance at 31 March 2021 £'000
<i>Bank Current Accounts</i>			
Bank of Scotland	A+	2,237	1,952
Northern Trust	AA	11,021	8,139
Total		13,258	10,091

Liquidity Risk

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2021, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

19 FUNDING ARRANGEMENTS

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

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

2020 Actuarial Valuation

The 2020 Actuarial Valuation was undertaken for the Fund as at 31 March 2020 (full report available on the Scottish Borders Council Pension Fund website). The Valuation was completed during the financial year 2020/21 by the Funds actuaries, Hyman Robertson. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

The funding level of the Fund as at the 31 March 2020 was 110%, compared to the 31 March 2017 valuation of 114% and this corresponded to a surplus of £63m. The following table summarises the funding position.

Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2017 £m	2020 £m
Value of the Scheme Liabilities	(573)	(650)
Smoothed Asset Value	653	713
Surplus/ (Deficit)	80	63
Funding Level	114%	110%

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

The next detailed Actuarial Valuation will be carried out for the Fund as at 31st March 2023.

Valuation Assumptions

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

Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2020) were:

	2017 Valuation	2020 Valuation
	% p.a.	% p.a.
Investment Return	5.0	3.8
Pay Increases – Long Term	3.8	2.6
Pension Increases	2.8	1.9
Discount Rate	5.0	3.8

Demographic Assumptions

The mortality assumptions used and applied to all members are bespoke set of Vita Curves tailored to fit the membership profile of the Fund. Future improvement of mortality have been allowed based on CMI 2019 model with an allowance for smoothing of recent mortality experience and long term rate of improvement of 1.5% p.a. for both women and men.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

Life Expectancy after age 65		31 March 2017	31 March 2020
Pensioners	Male	21.7	20.9
	Female	24.3	23.5
Non Pensioners	Male	23.5	21.9
	Female	26.2	25.4

Commutation Assumption

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

50:50 option

It is assumed that 0% of active members will take up the 50:50 option in the LGPS 2014 scheme.

20 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

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

	Net Pension Asset/(Liability) as at:		
	31 March 2019 £m	31 March 2020 £m	31 March 2021 £m
Present value of the defined benefit obligations	(941)	(887)	(1,088)
Fair Value of Fund Assets* (bid value)	733	713	860
Net Asset/(Liability)	(209)	(174)	(228)

The McCloud judgement, which relates to age discrimination arising from public sector pension scheme transition arrangements has been included in the obligations figures above. The obligations also include a calculation for the Guaranteed Minimum Pension (GMP) equalisation which is still currently awaiting guidance from Treasury. The GMP reconciliation exercise is still ongoing but is unlikely to be significant, no allowance has therefore been made in the obligations.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

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

	At 31 March 2019	At 31 March 2020	At 31 March 2021
	% p.a.	% p.a.	% p.a.
Discount Rate	2.4	2.3	2.85
Pay Increases – Long Term	3.5	2.9	3.55
Pension Increases	2.5	1.9	2.0

As noted above, liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2020 Triennial Funding Valuation (see Note 19) because IAS 19 stipulates a discount rate, rather than a rate that reflects the market rate for investment returns on the Fund's assets.

21 CURRENT ASSETS

Current Assets	As 31 March 2020 £'000	As 31 March 2021 £'000
Short term debtors		
Contributions Due – Employees	15	30
Contributions Due - Employers	43	87
	58	117
Transfer value receivable (joiners)	102	456
Sundry Debtors	9	7
Prepayments	81	82
Total	250	545
Cash Balances	2,237	1,952
Total	2,487	2,614

22 CURRENT LIABILITIES

Current Liabilities	As 31 March 2020 £'000	As 31 March 2021 £'000
Transfer value payable (leavers)	198	566
Sundry Creditors	1,498	1939
Benefits payable	252	209
Total	1,948	2,714

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

23 ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2021 was £1.636m (2020 £1.2324m). During the year contributions in totalled £0.356m, while payments out of the AVC fund totalled £0.293m. In accordance with regulation 4(2)(b) of the Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2009 (SI 2009/3093), AVCs are not included in the Pension Fund accounts.

24 AGENCY SERVICES

There are no agency services agreements in place.

25 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £1.43m (2020: £1.50m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.005m (2020 £0.005m). The Council charged the Pension Fund £0.281m (2020 £0.343m) in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due to Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2020 £'000	2021 £'000
Due (to)/from Scottish Borders Council	(142)	(244)

Governance

Six members of the Pension Fund Committee were active members of the Pension Fund during 2020/21. One member of the Pension Fund Committee was in receipt of pension benefits from the Fund.

26 KEY MANAGEMENT PERSONNEL

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

31 March 2020 £000's		31 March 2021 £000's
96	Short-term benefits	111
-	Post-employment benefits	-
4	Other long-term benefits	7
-	Termination benefits	
100	Total	118

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

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

27 CONTINGENT ASSETS

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

28 CONTINGENT LIABILITIES

GMP Equalisation

On 26 October 2018, the High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund recognises the potential for liabilities arising from GMP equalisation. As guidance has not yet been issued by the Treasury it is not possible to quantify the impact this will have on the Fund at this time, however, an allowance for full GMP indexation was included within the 31 March 2020 funding valuation position and therefore the allowance is automatically included within the 31 March 2021 balance sheet.

GMP Reconciliation

The exercise known as GMP Reconciliation to reconcile HM Revenue contracted out records with those of pension funds is reaching a conclusion. The full cost implication of this is not yet known. Scottish Ministers are expected to legislate that any LGPS pensions that have been overpaid due to incorrect GMPs being held should not be reduced. Instead it is expected that overpayments will be ring fenced and frozen at their current level. Final information has been received from HMRC and will be reviewed once the year end postings have been completed for the 2020-21 year end to ensure we meet the statutory deadline for Annual Benefit Statements.

29 POST BALANCE SHEET EVENTS

The unaudited Statement of Accounts was issued by the Executive Director Finance & Regulatory on 30 June 2021. Events taking place after this date are not reflected in the financial statements or notes.

SECTION 4

ADMINISTRATION

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

PENSION ADMINISTRATION STRATEGY

The Pension Administration Strategy approved in September 2020 sets out the procedures and performance standards required by both Scottish Borders Council, as administrating authority and the employers with the Fund. The procedures and performance standards are agreed to ensure the efficient and effective administration of the pension scheme. The strategy aims to ensure that

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

PERFORMANCE

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

The performance for the year to 31 March 2021 is set out over

Employer Performance Measures

Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	681	100%
Change notification – within 20 days	671	100%
Retirement info – at least 20 working days before	237	100%
Early leaver notification – within 20 working days	582	100%
Death in service notification – within 10 working days	6	100%

Contribution Payments

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

Employer Body	By Target Date	Late	% On Time
Scottish Borders Council	12		100%
Visit Scotland	9		100%
Borders College	12		100%
Scottish Borders Housing Association	12		100%

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

Jedburgh Leisure Facilities Trust	12		100%
Borders Sport and Leisure Trust	12		100%
AMEY Community Limited	12		100%
SB Cares	12		100%
CGI	12		100%
South of Scotland Enterprise	12		100%

There were no late payments received during 2020-21. Visit Scotland shows nine payments as they were transferred from the Scottish Borders Council Pension Fund to Lothian Pension Fund on 1st January 2021.

Administering Authority Performance Measures

Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	50	20 days	58.0%
Estimates – Transfer Out	31	20 days	35.5%
Estimate – All Other	1,155	10 days	87.3%

With the move to homeworking due to the pandemic staff were focusing on ensuring payments were made on time and adopting to new working practices it was accepted that it was not going to be possible to record all queries received as in previous years. Therefore, it has not been possible to provide the split as previous. We also saw a move towards queries coming in via email, which is reflected in the table below.

Type of Query	Volume	Target	%age Met
Phone Calls logged	79	5 days	100%
Annual Benefit Statement Queries	279	5 days	100%
Emails to pensions@scotborders.gov.uk mailbox	3,614		Not Measured
Total	3,972		

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	2 nd March 2021
Benefit Statements	by end of August	24th August 2010

The sixth liaison meeting, held virtually, with all Admitted and Scheduled Bodies was held during 2020/21 and covering the changes that had been made to the annual reporting for the 2020/21 year end and afforded the employers the chance to ask questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

Key Administration Tasks

Task	Total received
New entrants	679
Early leavers	468
Retirements	237
Deaths in service	6
Deaths in deferment	2
Deaths in retirement	91
New Widows(ers), Child Pensions	50
Estimates	1,155
Pension credit members	0

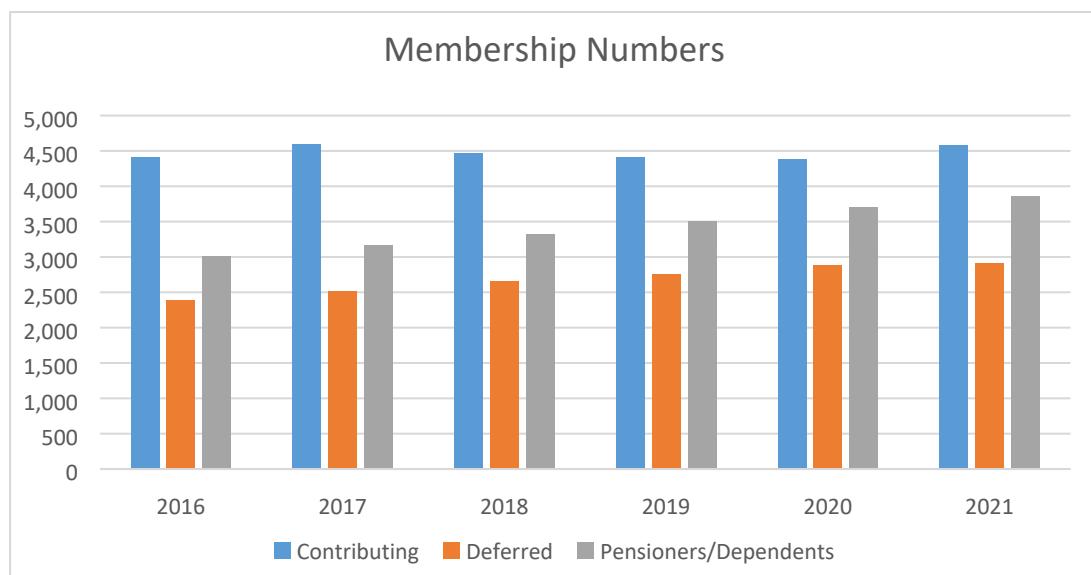
MEMBERSHIP

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

Teachers are not included as they are enrolled as members of schemes managed and administered by the Scottish Public Pension Agency.

The current membership of the Fund is 11,664, of which 4,647 are actively contributing and 4,040 are in receipt of their benefits. The table over provides a summary of the trends in membership:

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021



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

Membership Details as at 31 March 2021	Number of Contributors	Pensioners	Deferred Pensioners	Total
Scheduled Bodies:				
Scottish Borders Council	4,138	3,605	2,542	10,285
Borders College	195	92	77	364
	4,333	3,697	2,619	10,649
Admitted Bodies				
Scottish Borders Housing Association	67	104	74	245
LIVE Borders	136	59	68	263
Jedburgh Leisure Facilities Trust	2	2		4
Amey Community Limited (TUPEE Staff only)	2	9	3	14
CGI (TUPEE Staff only)	28	8	9	45
South of Scotland Enterprise	79			79
	314	182	154	650
Admitted Bodies no contributing members				
SB Carers		123	179	123
Gala Youth Project		2		2
Scottish Borders Careers		2		4
L&B Community Justice Authority		2	7	9
BC Consultants		15	15	30
Others		17	1	18
	0	161	204	365
Total	4,647	4,040	2,977	11,664

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

Visit Scotland Transfer

Scottish Ministers requested the consolidation of all Pension Scheme members of the Local Government Pension Scheme into one single Fund. As a result it was necessary to carry out a bulk transfer of scheme members from the Scottish Borders Council Fund to Lothian Pension Fund. The transfer saw seven pensioners, one active member and eight deferred members' transfer, with the bulk transfer value, as agreed by Fund Actuaries, of £1,804,036.28

COMMUNICATION POLICY AND PERFORMANCE

COMMUNICATION POLICY

The Fund approved the current Communications Policy on 24 September 2020. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is: -

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

The objective of this policy is to ensure that: -

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

The communication methods utilized are:-

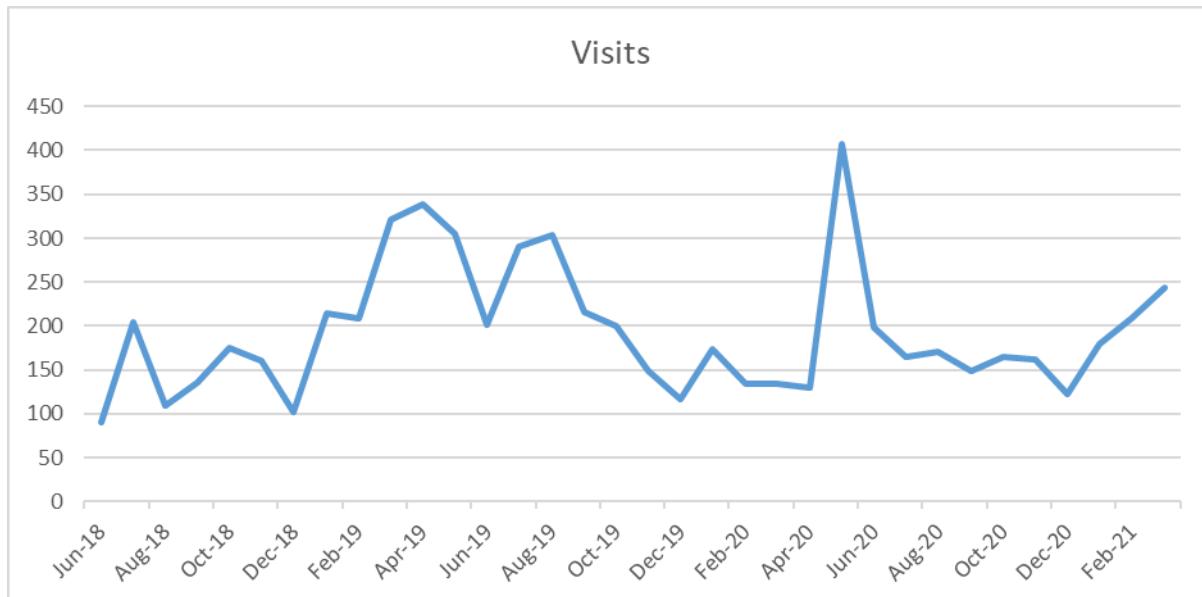
Fund website to provide information to as many stakeholders as possible at a time that suits them we provide access to the following: -

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

Scottish Borders Council Website for Pension Committee and Local Pension Board agendas and minutes can be found on the main Council website, www.scotborders.gov.uk. The Fund uses both surface and e-mail to send and receive general correspondence. Roadshows and presentations are available to employer workplaces and attend roadshows, seminars, induction and pre-retirement presentations on request, a minimum period of four weeks' notice will be required to allow for appropriate preparations. Scheme members can arrange to visit our offices to speak to a member of our Pensions Administration Team, they can arrange to pre-book appointments by e-mail or telephone.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

The introduction of the Pension Fund website in June 2018 has allowed members to access information and documents. The table below details the number of visits to the site since it was launched to end of March 2021. The scheme website can be found at www.scottishborderscouncilpensionfund.org



COMMUNICATION PERFORMANCE

The following communications took place during 2020/21

- The Employer Liaison meeting was held as a virtual meeting due to the restrictions in place as a result of the Covid-19 situation. In addition to the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years' payroll.
- Information continues to be posted within the Scottish Borders Council Pension Fund website, this included the following: -
 - Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
 - Information regarding Pensions Increase
 - Details of Shared Cost AVC
 - 7,067 Annual Benefits statements and newsletter issued.

SECTION 5

FUNDING

FUNDING STRATEGY STATEMENT

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

The purpose of the Funding Strategy Statement is:

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

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

The latest Funding Strategy Statement (FSS) was approved by the Pension Fund Committee on 4 March 2021 and a copy of this document can be found at [Funding Strategy Statement](#). Key elements of the Funding Strategy Statement are the Funding Objective and Funding Strategy for the Pension Fund, an extract of these are included below.

Aims and Purpose of the Fund (Section 1, page 2 of FSS)

Aims To:

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

Purpose To:

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

Funding Strategy (Section 5, page 5 of FSS)

The Funding Strategy seeks to achieve (via employee and employer contributions and investment income) three key objectives:

- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations;

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

- Ensuring the solvency of the Fund and the long-term cost efficiency of the Scheme; and
- As stable an employer contribution rate as is practical.

ACTUARIAL STATEMENT

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

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

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

Triennial Valuation 2020

The Triennial Funding Valuation as at the 31 March 2020 was undertaken during 2020 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Board on 4 March 2021. The valuation was undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2014. A copy of the report is available via the Council's committee papers website [Pension Fund/Board Committee papers](#)

The outcome of the 2020 Valuation was a funding level of 110% a slight reduction in the position assessed at 2017 of 114%. The funding position equates to a surplus of over £63m and the advice of the Actuary is that this surplus be used over time to partially offset increases in the primary employer's contribution rate of 21.9%. The Fund's common pool contributions rate remains stable for the first two years but due to uncertainties around the impact of McCloud and the Cost Cap Mechanism rates will be increased by 0.5% from 1 April 2023. Employers out with the common pool have seen individual employer rates change for specific circumstances.

	Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2014 £m	2017 £m	2020 £m
Value of the Scheme Liabilities	487	(573)	(650)
Smoothed Asset Value	490	653	713
Surplus/ (Deficit)	3	80	63
Funding Level	101%	114%	110%

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

Note 19 to the Statement of Accounts on page 55, contains details of the outcome and assumptions used in the 2020 Valuation and the impact that it had on employer contribution rates.

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

Employer Contribution Rates

As part of the 2020 Actuarial Valuation, the Actuary certified the primary rate at 21.9%. However in agreement with the Actuary a secondary rate of 3.96% has been deducted to allow the common rate of contribution as 18% of payroll for the next two years with an increase of 0.5% on 1 April 2023. The secondary rate will reduce the surplus of £63m over 50 years.

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

Employers Contribution Grouping	Employers Contribution Rate	
	2019/20	2020/21
Scottish Borders Council Common Pool	18.0%	18.0
Scottish Borders Housing Association – Individual	20.3%	20.3
CGI	21.1%	21.1
South of Scotland Enterprise	20.6%	20.6

Valuation for Statutory Accounts at 31 March 2020

Note 20 to the Statement of Accounts on page 57, contains the present Actuarial Valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £174m. However, the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2020 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the Fund. The full version of the Actuary report and the current Funding Strategy is available via the Pension Fund website: [Pension Fund](#)

SECTION 6

INVESTMENTS

STATEMENT OF INVESTMENT PRINCIPLES

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

The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended, require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) which includes the policy on:

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending.

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

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

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

The 2017 Triennial Valuation reported a funding position of 114% with investment returns targeted at 5% per annum. Following the 2020 Triennial Valuation which reported a funding position of 110% and investment target returns of 3.8% the Fund will be undertaking a review of its Statement of Investment Principles and it's target asset allocation.

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

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

INVESTMENT STRATEGY

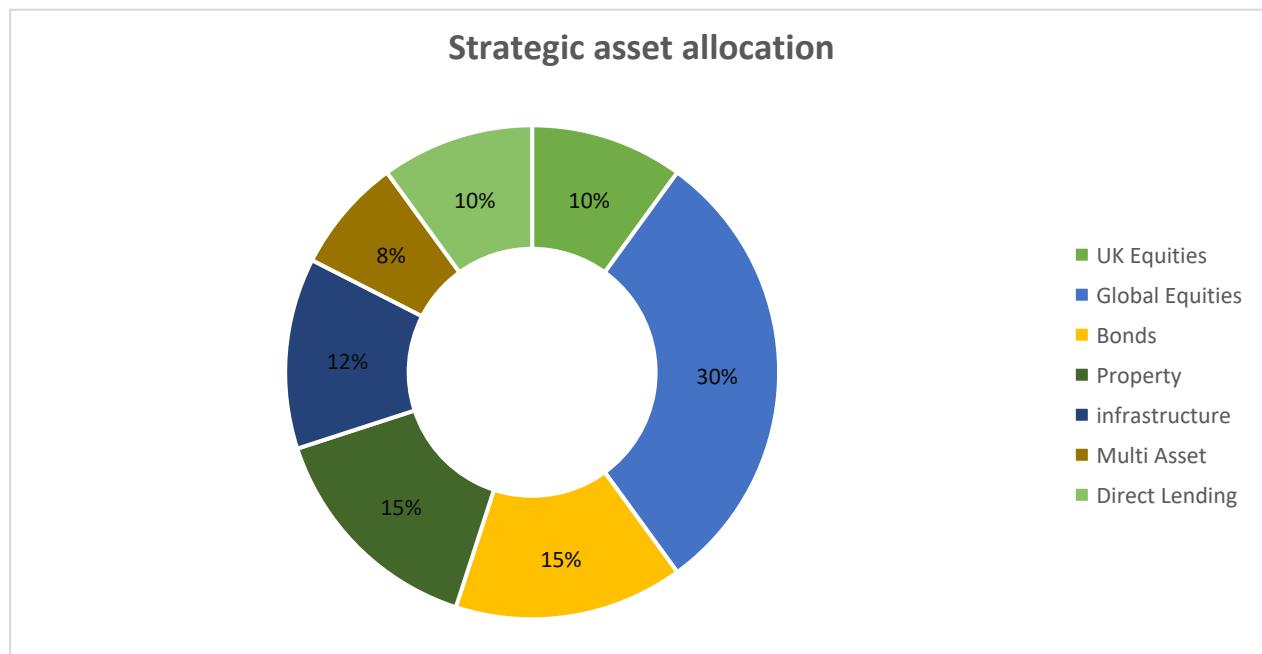
The Fund's investment objective is to support the Funding Strategy by adopting an Investment strategy and structure, which incorporates an appropriate balance between risk and return.

Following the 2017 Triennial Valuation, which showed the Fund at 114% funded, the Fund looked to increase diversification from volatile equity markets and to spread the risk across an increased number of managers. The following valuation in 2020 showed the Fund at 110% funded and will be undertaking a review of the strategic asset allocation.

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

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

Using the asset liability model, which assess risk/return against liabilities as the basis for modelling a revised Investment Strategy was approved in September 2018. The diagram below shows the approved strategic asset allocation which will be reviewed in June 2021.



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

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021



BLACKROCK



M&G
INVESTMENTS

Morgan Stanley



PERMIRA
DEBT MANAGERS



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



Brookfield



DALMORE CAPITAL



KKR



OAKTREE

The implementation of the Investment Strategy commenced in December 2018 with the appointment of Macquarie for infrastructure debt and a reduction of equity managers. Due to the nature of the new investments, progress has been gradual as investment opportunities arise and appointed Fund Managers draw down funds. The table over shows the position as at 31 March 2021 against the Strategy:

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

Asset Class	Asset Allocation at 31/3/20 %	Asset Allocation at 31/3/21 %	Strategic Benchmark %
UK Equity	10.4	13.1	10.0
Global Equity	33.2	32.9	30.0
Bonds	18.9	20.8	15.0
Alternatives	14.3	13.0	17.5
Property	13.8	11.1	15.0
Infrastructure	8.2	8.1	12.5
Cash	1.2	1.0	0.0
Total	100.0	100.0	100.0

Investment Manager Allocation

Each external Investment Manager is appointed to manage a specified % allocation of total fund investment assets. The breakdown of the Fund's assets by Investment Manager, mandate type and asset class at 31 March 2020 and 31 March 2021 are show in the table below

Manager	Mandate Type	31 Mar 2020 (%)	31 Mar 2021 (%)
UBS	Pooled Fund -UK Equities	6.2	6.0
Baillie Gifford	UK Equities	4.2	7.1
Baillie Gifford	Global Equities	19.3	19.1
Morgan Stanley	Pooled Fund - Global Equities	13.9	13.8
M&G	Pooled Fund - Diversified Income	12.9	13.5
M&G	Pooled Fund - Bonds	5.9	7.3
UBS	Pooled Fund -Property	5.4	4.3
Blackrock	Pooled Fund – Property	8.4	6.8
LGT	Pooled Fund - Alternatives	7.1	6.9
Partners Group	Pooled Fund – Private Credit	3.3	3.2

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

Permira	Pooled Fund – Private Credit	3.9	2.9
KKR	Infrastructure	0.4	0.4
Infrared	Infrastructure	0.2	0.1
Dalmore	Infrastructure	1.6	1.6
Brookfield	Infrastructure	0.2	0.2
Macquarie	Infrastructure	0.2	0.2
Equitix	Infrastructure	0.2	0.2
Allinda	Infrastructure	0.4	0.4
Gaia LP	Infrastructure	0.4	0.2
Oaktree	Infrastructure	0.2	0.3
Macquarie	Pooled Fund -Infrastructure Debt	4.5	4.5
Cash	Internally Managed Cash & Investments	1.2	1.0

Holdings

The table below shows the top 20 direct holdings at 31 March 2021. All holdings are held with the Baillie Gifford Global and UK equities portfolios.

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential GBP	6.2	Naspers N Zaro	5.7
BHP Group PLC	5.1	Rio Tinto	5.0
Amazon Com Inc	4.2	Moodys Corp	3.7
Alphabet Inc	3.4	Taiwan Semicon	3.4
Microsoft Corp	3.4	Anthem Inc	3.3
Mastercard Inc	3.2	ADR Sea Ltd	3.2
Shopify Inc	3.1	Meituan	2.9
ADR Alibaba Grp holding limited	2.9	Martin Marietta Matls Inc	2.8
AIA Group Ltd	2.8	St James's Place	2.6
Tesla Inc	2.5	Olympus Corp	2.4

INVESTMENT PERFORMANCE

MARKET CONTEXT

2020 was dominated by the effects of Covid-19 across the globe. Many growth asset markets at the start of the pandemic retracted resulting in sharp drops across the markets at the start of the year with the low point at the end of Q1 2020. Many countries across the globe have implemented supportive monetary policies and fiscal support to their economies which have been received positively by the markets, many of which have now rebounded.

Equity markets were one of the markets most effected at the start of the Covid-19 pandemic with the significant drops in values. Equity markets partially bounced back in Q2 2020 as governments reacted to Covid-19. The announcements of Covid-19 vaccines in Q4 2020 provided further positive returns along with announcements of further monetary and fiscal support. UK equites also rebounded strongly during Q4 as the UK reached a trade deal agreement with the European Union ahead of the Brexit deadline. The markets ended the year having fully recovered from prior to the impact of Covid-19.

Real assets such as long lease property and infrastructure have been resilient and posted and posted positive performance during the year despite the global impact of Covid-19 and Brexit. Despite Covid-19 there remains demand for these assets due to its low-risk, secure, inflation linked, long term income streams Core UK Property has also delivered positive returns following the fall at the Q1 2020

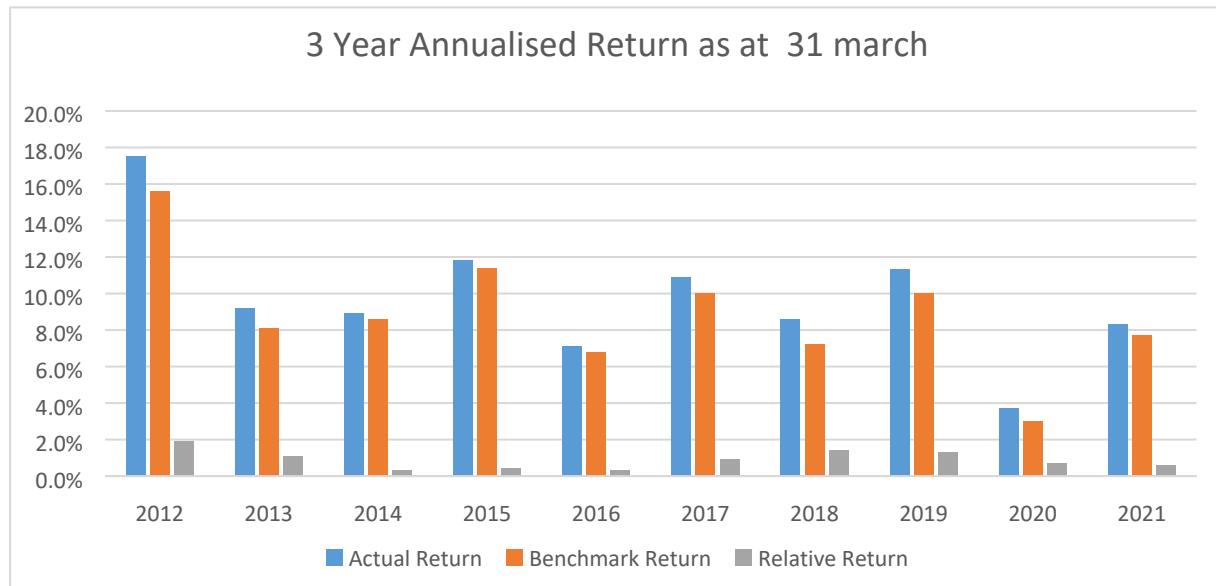
Credit markets as with other markets saw significant recovery in Q2 2020 due to the fiscal policies and again in Q4 2020 with announcements of vaccines. More recently, rising inflation expectations has put upward pressure on interest rates. This has led to interest rate sensitive assets such as inflation linked government debt and investment grade credit, performing negatively.

FUND PERFORMANCE

Following the large drop in investment at 31 March 2020 due to the unprecedented economic disruption caused by Covid-19 the Fund has during 2020/21 fully recovered these losses. All asset class have preformed well over the year giving a strong positive performance for the year of 20.1% against a benchmark of 18.3%. The table over shows the rolling three year annualised relative return (i.e. Funds' return achieved compared with the benchmark) for the last 10 years.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

Rolling 3 year annualised performance



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

The Fund achieved a positive return of 20.1% against a benchmark of 18.3%.

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

Return on Investment as at 31/3/2021	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund	20.1%	18.3%	8.3%	7.7%
Global Equities	39.8%	39.4%	16.6%	14.3%
UK Equities	30.4%	27.3%	4.2%	3.5%
Bonds	12.9%	3.3%	4.2%	3.6%
Alternatives	9.6%	4.0%	5.3%	4.6%
Property	0.3%	3.6%	2.4%	4.0%
Cash	-	-	-	-

The table above shows the largest contribution to the very positive returns has come from equities. This reflects the post Covid-19 bounce back from the large drop in equities at the 31 March 2020 which saw equities dropping by over 20% in Q1 2020.

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021**



RESPONSIBLE INVESTMENT

Scottish Borders Council Pension Fund's (SBCPF) overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role the Fund believes that a positive approach to Environmental, Social and Corporate Governance (ESG) issues can positively affect the financial performance of investments whereas a failure to address these considerations can have a detrimental effect. In accordance with Trustee fiduciary duty, it is imperative that we act 'prudently, responsibly and honestly' and therefore consider both short term and long-term risks when making investment decisions.

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

- All new managers adhere to and report on the United Nations Principles for Responsible Investment (UNPRI) Code & Stewardship Code, Managers will be expected to use ESG factors as a tool for gathering information to improve decision making, thereby managing risks.
- The Fund minimises any harm to the environment and society, whilst ensuring it builds up a portfolio of assets that are best placed to meet its future liabilities.
- The Fund wishes to see its environmental footprint minimised, its social responsibilities maximised and the highest standards of employee relations and corporate governance maintained.
- The Fund requires its Investment Managers to adhere to these standards in all their investments activities and plans to monitor how these standards are upheld for the following set of overarching principles.

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

The Responsible Investment Policy also requires the Fund to review and report on an annual basis the performance of Managers. The second monitoring report was presented and approved by the Pension Fund Committee on 24 September 2020. The key highlights of this report are as follows:

- 15 out of 17 Managers are signatories of UNPIR representing 99.5% of the Fund.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

- PRI annual assessment scored 9 out of 15 Managers as higher than median.
- Internal scoring methodology scored 96.8%; of the funds managed by managers, scored 80% or more than the total available scores.

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

The Fund actively investigates opportunities to increase investment in sustainable funds. This active management has seen an additional £100m move from the Morgan Global Brand Fund to the Global Sustain Fund, which has resulted in all funds held with Morgan Stanley now being in their Sustain Fund.



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

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



The Pension Fund as part of its responsible investment policy has become a signatory to Climate Action 100+ which was launched in December 2017 with the support of 225 investors representing \$26.3 trillion of assets. It now has 575 investors with assets of \$54 trillion under management. Scottish Borders Council Pension Fund became a signatory to this in March 2020.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2021

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

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

Due to the work of Climate Action 100 and the support of signatories like Scottish Borders Council Pension Fund a number of key success have been achieved by working companies such as BHP, Total, Shell and Southern Company all making improvements and commitments to Climate change targets.

SECTION 7

INDEPENDENT AUDITORS REPORT

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2021

CONTACT DETAILS

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

Pensions Team	Telephone 01835 – 825052/3
	E-mail pensions@scotborders.gov.uk

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

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

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

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



ITEM [insert Item No.]

INFORMATION UPDATE

Briefing Paper by Executive Director Finance & Regulatory Services

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

10 June 2010

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 ADMINISTRATION – SELF SERVICE

- 2.1 Progress on the implementation of the Members Self Service (MSS) online portal was impacted last year, however, we are now back working on this and are working closely with Aquila Heywood. The test system has been built using Scottish Borders Council corporate colours, fonts and images.
- 2.2 Training for the Pensions Admin Team is scheduled and will be delivered via Microsoft Teams on the following dates: -
1st and 3rd June – MSS overview and training
8th and 10th June – Content training
- 2.3 Thereafter we will enter into a period of User Acceptance Testing. During this time we will be gathering email addresses from Pension Fund members that will be used to provide login details. If all goes to plan we will be in a position to provide Annual Benefit Statements via the new portal this year.
- 2.4 A demonstration of the MSS will be provided at a future joint meeting of the Pension Fund Committee and Board.

3 SCHEME ADVISORY BOARD

- 3.1 The scheme Advisory Board has held 3 meetings in 2021. These were on 19th January, 17th February and 14 April. They have issued one bulletin to encompass all of these meetings headed April 2021.

3.2 The April 2021 bulletin is included in Appendix 1 with key areas of discussion shown below:

- Cessation
- Structures
- Transparency
- Cost Cap

3.3 A meeting was also held on 19th May, no agenda is available on the SAB website but a bulletin has been issued and is included in Appendix 2. The areas covered were:

- Structure review
- Cessation issues
- Costs Cap
- Improving communications

4 TRAINING OPPORTUNITIES

- 4.1 The LGPS officers group is currently drafting the agenda for the annual training event hosted by them. The event will be virtual probably over two days. Once dates and agenda are agreed information will be circulated to all members.
- 4.2 A specific half day training event is currently being developed on ESG areas all members of the Committee and Board can fully engage in the review and further development of the Funds Responsible Investment Policy. The agenda and date will be shared with members as soon as available.
- 4.3 PLSA are holding a virtual ESG Conference from 30th June to 2 July. Information on the agenda has been circulated to all Members of the Board and Committee. Those wishing to attend should notify Kirsty Robb by 15th June.
- 4.4 Officers continue to monitor other training opportunities and these will be shared with the Committee and Boards as they become available.

5 FUTURE MEETINGS

5.1 The dates of future meetings are given below for information

Joint Pension Fund Committee and Pension Fund Board

- Thursday 16 September 2021
- Wednesday 20th October 2021 (Annual Accounts sign off)
- 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
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April 2021

BULLETIN

Cessation

Following approval of the report from a working group on Cessation Issues in December 2020, the SAB considered how to put this into effect. For employers considering leaving the scheme, it considered if funds Funding Strategy Statements could address employers funding position with respect to guarantees, collateral etc; steps to identify historic liabilities; and a 90-day stability for exit payment calculations. It also looked at how transfers of staff between funds could be pragmatically undertaken, and at what guidance on cessation flexibilities might be recommended. Given the complexity of the issues, it was agreed to run a bespoke training session and return to the issues at its May 2021 meeting.

Structures

The SAB agreed to appoint a Strategic Programme Manager to lead a 12-month programme of work to produce business cases for the four options for fund structures – status quo, enhanced cooperation, pooling, and merger. Subsequently an appointment was made, and the postholder has commenced work on the framework for the project.

Transparency

The Cost Transparency Portal is available to Funds to start to benchmark fees relating to their investment costs against averages of other similar LGPS funds. There has been a high degree of reporting from investment managers. Additional currencies have also been added to the system, to enhance its usefulness.

Cost Cap

An additional special meeting of the SAB received a presentation on the cost stability mechanism (the “Cost Cap”) from GAD and the SPPA. This was based on draft directions from HM Treasury and looked at assumptions and valuations. The directions are not yet finalised, but when they are the results will be released.

Further details on our website www.lgpsab.scot.

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May 2021

BULLETIN

Structures Review

Pat Tomlin, the newly appointed Project Manager, presented a proposal on governance of the project to produce business cases for future options for fund structures, and this was approved. The SAB appointed a project sponsor, from the SAB, to assist Pat in a purely functional capacity, with no impact on the outcome. In addition there will be a sub-group which will oversee the day-to-day running of the project, and a working group of experts to provide technical input.

Pat will be seeking input from a wide range of stakeholders and experts for the project, and the SAB would encourage everyone to give her as much support as possible in the major undertaking.

Cessation issues

SAB members received a briefing on a set of recommendations that might give more flexibility to funds when dealing with employers wishing to leave the LGPS. The SAB discussed these further and has asked the working group to consult with funds to ensure all the recommendations are pragmatic.

Cost Cap

A consultation on the cost cap mechanism from HM Treasury is expected later in the year, and the SAB expressed a willingness to explore the mechanism used in England and Wales which can be used to pre-emptive changes and avoid a cost cap breach. It agreed to write to the SPPA regarding this. It also noted a proposal to revise the nominal target rate for employer contributions that the cost cap valuation uses, and that it might need to meet to consider a view on any proposals to change this.

Improving communications

The SAB discussed developing closer relations with local LGPS boards, and agreed to invite the chairs of up to two local boards to observe at each meeting. It also agreed the annual report which will now be available on webpages as well as a pdf document.

Further details on our website www.lgpsab.scot.

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STRATEGIC INVESTMENT REVIEW

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

10 June 2021

1 PURPOSE AND SUMMARY

- 1.1 **The report provides the Committee and Board with an update on the outcome of the 2021 Strategic Investment Review and presents the resulting recommendations for the revised asset allocation.**
- 1.2 The Investment strategy is a key to ensuring assets continue to grow to meet the long term liabilities of the Fund and that as far as possible the contribution rates paid by employers remain stable.
- 1.3 A review of the current strategy has been undertaken by Isio, the Funds' Investment Advisor, in consultation with officers and the findings are detailed in Appendix 1. A workshop was held with the Investment and Performance Sub Committee of the 25 May 2021 to discuss recommended changes arising from the review. Para 5.5 details the recommended revised

2 STATUS OF REPORT

- 2.1 Due to the timing of the Investment and Performance Sub Committee the report is currently undergoing consultation. Comments received from the consultation will be reported at the meeting.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Committee:-**

- (a) **Agree the investment strategy as summarised in para 5.5 and detailed in appendix 1.**
- (b) **Delegate authority to the Executive Director Finance and Regulatory, in consultation with the Chair of the Pension Fund Committee, and based on the advice of the Investment Advisor to:**
 - i) **implement the outcome of the 2021 review of the Funds' equity mandates;**
 - ii) **terminate the UBS Property Fund; and,**

- iii) procure a new Infrastructure Manager; and,
 - iv) Terminate the current passive equity mandate, and procure a new passive equity manager to replace UBS.
- (c) Request regular update reports as the implementation of the revised strategy progresses.

4 BACKGROUND

- 4.1 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles (SIP). A key part of the SIP is the strategic asset allocation which sets the allocation of investments across the different asset classes.
- 4.2 The Funds primary aim of the Fund is "To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis". To meet this aim the Pension Fund must ensure it sets levels of contributions that will build up a fund of assets sufficient to meet all future benefit payments.
- 4.3 The Fund while setting the contributions rates aims to ensure the rates payable by employers are as stable as possible. To reduce the volatility of contribution rates the Fund must ensure there is stability and the required level of returns from the investments.
- 4.4 The last review of the strategic asset allocation was undertaken in September 2018 following the 2017 tri-annual revaluation and the appointment of KPMG the then Investment Advisor. The outcome of this review was incorporated into the current SIP and good progress has been made with respect to implementation.
- 4.5 The results of the most recent triennial valuation on 31 March 2020 has shown the updated funding position to be 110%. The employer contribution rates agreed as part of the 2020 valuation process require the Pension Funds investments to deliver a return of at least 3.8% per annum to support the funding position.

5 STRATEGIC REVIEW

- 5.1 Isio, the Funds' current Investment Advisors, has now undertaken a health check of the current investments within the Fund. The Fund has performed well, and has over the last 10 years consistently produced a positive return above benchmark over a 3 year rolling period. The Fund has also, as seen in appendix 1, invested at lower volatility levels than other Scottish LGPS funds while delivering comparable investment returns through a well-diversified portfolio of assets.
- 5.2 Much of the recent strong performance has been achieved from the Funds' equity investments. The current allocation of 40% of assets to equities is split between UK and Global over four portfolios. The current balance is tilted toward UK equites with an allocation of 25%, spread over active and passive management. The Fund has over the last two years, as part of its Responsible Investment Policy, moved all of its equity investments with Morgan Stanley into the Global Sustain fund which excludes tobacco, alcohol and stocks in carbon polluting businesses. The review undertaken with Isio supports maintaining the current 40% allocation to equities but recommends restructuring the existing portfolios to target a more balanced, robust and sustainable approach. The recommendation looks to move 10% into an ESG focused "passive" fund, requiring the replacement of the

current manager UBS with a new provider, and to spread the remaining 30% between sustainable funds with Morgan Stanley and Baillie Gifford. With respect to investments managed by Baillie Gifford rebalancing the fund to focus less on UK investments and more on a Global mandate with a tilt towards ESG is recommended.

- 5.3 The Fund currently also has a 10% allocation to balanced property with UBS which is maintained in a "fund of funds" portfolio. The property mandate, despite a number of changes over the years to reduce the number of individual fund managers, continues to cause concern around its performance and direction. It is now recommended the Pension Fund fully withdraws from its balanced property mandate with UBS. There are a number of options on how this withdrawal can be achieved, with different costs and different likely durations to be evaluated in determining the optimal exit strategy. Further discussion and investigation will be required to ensure the Fund withdraws from its UBS property mandate and delegated authority is sought to ensure this can be delivered in the most cost effective and timely manner.
- 5.4 The Fund currently also has a 10% allocation to balanced property with UBS which is maintained in a "fund of funds" portfolio. The property mandate despite a number of changes over the years to reduce the number of individual fund managers, continues to cause concerns around its performance and direction. It is now recommended the Pension Fund fully withdraws from its balanced property mandate with UBS. There are a number of options on how this withdrawal can be achieved, with different costs and different likely durations to be evaluated in determining the optimal exit strategy. Further discussion and investigation will be required to ensure the Fund withdraws from its UBS property mandate and delegated authority is sought to ensure this can be delivered in the most cost effective and timely manner.
- 5.5 The table below gives a summary of the recommendations of the review against the current approved strategy. Appendix 1 details the full findings of the review.

Asset Group	Current Allocation	Recommend Allocation	Movement
Passive Equities	6%	10%	4%
Active Equities	34%	30%	(4%)
Total Equities	40%	40%	-
Diversified Alternatives	7.5%	4%	(3.5%)
Diversified Credit	10%	10%	-
Index Linked Gilts	5%	6%	1%
Direct Lending/Private Credit	10%	10%	-
Junior Infrastructure Debt	2.5%	2.5%	-
Senior Infrastructure Debt	5%	5%	-
Property - Balanced	5%	-	(5%)
Property - Long Lease	10%	12%	2%
Property – Residential		2.5%	2.5%
Infrastructure Equity	5%	8%	3%

- 5.6 The transition to the recommended revised strategy will take time and require disinvestment of some funds and the appointment of new funds. It is proposed this is done on a phased basis as detailed in appendix 1, using existing managers where possible to minimise the cost of transition. The timescales for moving to the new strategy is estimated at this point to be around 12-18 months and any revision to this timescale will be reported to committee.
- 5.7 For the additional allocation to Infrastructure equity it is proposed the additional funds are allocated to a new pooled investment Fund. This will require a new manager to be appointed but will minimise the future administrative burden and allow the funds to be invested quickly.

6 IMPLICATIONS

6.1 Financial

- (a) The revised asset allocation will require the establishment of new portfolios within the Fund. To minimise the costs of procurement Officers in conjunction with the Investment Advisor will investigate the use of existing Managers where possible.
- (b) The withdrawal from UBS Property portfolio could result in a realised loss. Officers will work with Isio and UBS to look at way to minimize these costs.

6.2 Risk and Mitigations

- (a) The Fund is becoming more mature as the number of deferred and retired members now exceeds those currently contributing. This has resulted in a negative fund cashflow as the monthly payments to Pensioners are now greater than the contributions collected through payroll. The Fund therefore needs to generate more liquid cash in order to pay pensioners and the current arrangements, whereby dividends are directly reinvested back into the portfolios. The mix of investments required to meet the funds cashflow obligations requires to be kept under review to ensure the Fund generates the monthly cash income required by the Fund to allow payment of pensioners.
- (b) The terms of the scheme allow for annual inflation linked increases in pension payments. There is a risk that this may result in increased liabilities which outstrip any the future growth in investments. To mitigate this risk the investments require to be diversified into assets which match the inflationary growth in liabilities in the best way possible.
- (c) In line with the corporate risk management approach, the Pension Fund maintains a full risk register which is fully reviewed on an annual basis and reports are submitted to the Joint Pension Fund Committee and Board on a quarterly basis updates on ongoing mitigation actions. Any new risks identified are added to the risk register on an ongoing basis.

6.3 Integrated Impact Assessment

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

6.4 Sustainable Development Goals

The recommendations of this report, per the Funds Responsible Investment Policy, will further strengthen the Funds commitment to sustainable investment.

6.5 Climate Change

The recommendations of this report, per the Funds Responsible Investment Policy, will further strengthen the Funds commitment to reducing climate change.

6.6 Rural Proofing

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

6.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

6.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

7 CONSULTATION

- 7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications are currently being consulted and any comments received will be reported at the meeting.

Approved by

David Robertson

Executive Director, Finance and Regulatory

Signature

Author(s)

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

Background Papers:

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

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. 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 0SA Tel: 01835 825249 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

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Scottish Borders Council Pension Fund

Page 211

Investment Strategy Review

May 2021

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Contents

Background

SLGPS Peer Group Analysis Pg 3

Introduction

Introduction Pg 7

Objectives Pg 8

Current Strategy

Investment Strategy Overview Pg 10

Current Asset Allocation – Actual vs Target Pg 11

Funding Trajectory Pg 12

Risk Analysis Pg 13

Liquidity Profile Pg 14

Areas of Review

Equity Portfolio Pg 16

Diversified Alternatives Pg 19

Real Assets: Overview Pg 20

Page 212

Alternative Strategies

Direction of Travel Pg 23

Alternative Portfolios Pg 24

Additional Considerations Pg 25

Summary and Next Steps

Summary and Next Steps Pg 28

Appendices

A1: Cashflow Profile Pg 30

A2: Equity Portfolio – Manager Overview Pg 31

A3: Alternatives: LGT Alternatives Proposal Pg 33

A4: Real Assets: UBS Property Proposal Pg 35

A5: Return and Volatility Assumptions Pg 36

A6: Modelling methodology Pg 38

A7: Disclaimers Pg 41

Background – SLGPS Peer Group Analysis

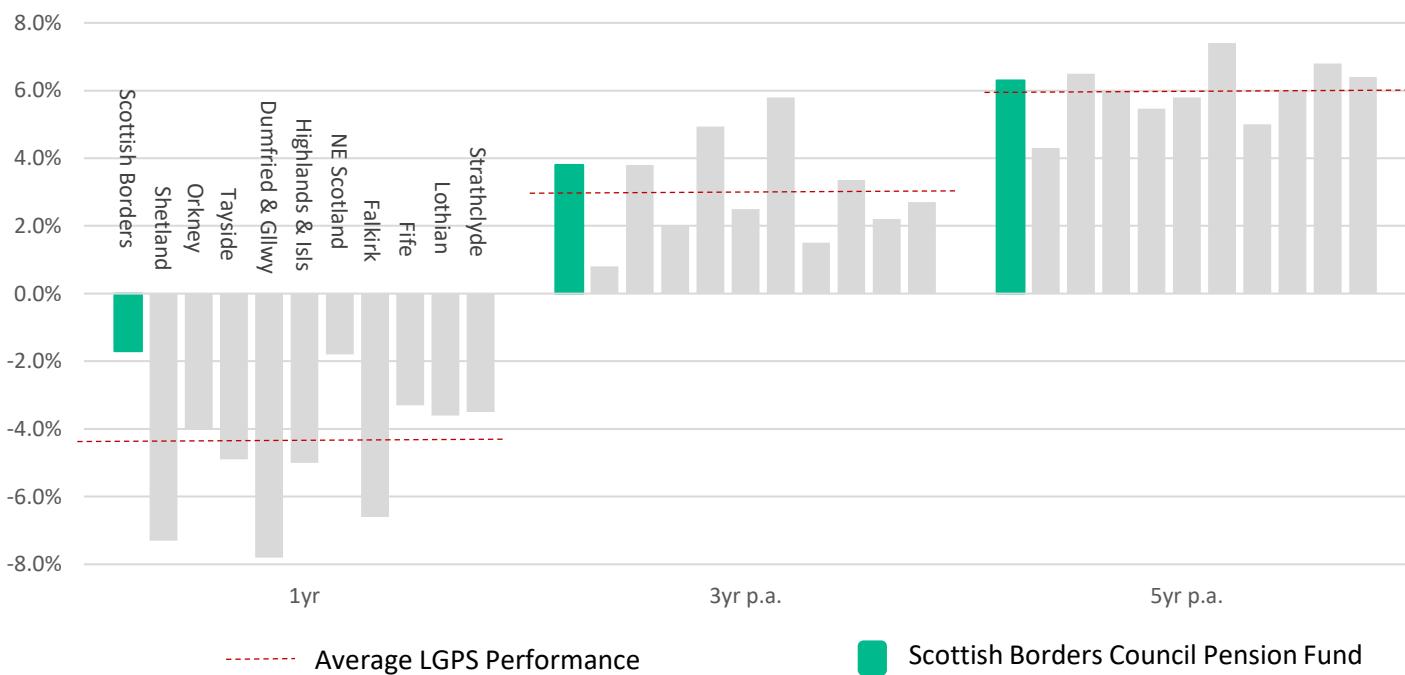
Page 213

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Historical Investment Return (% p.a.)

Period to 31 March 2020	Scottish Borders Fund	Average Scottish LGPS	<i>Relative</i>
Year return (%)	-1.7%	-4.5%	2.8%
3 year return (% p.a.)	3.8%	3.0%	0.8%
5 year return (% p.a.)	6.3%	6.0%	0.3%

Page 214

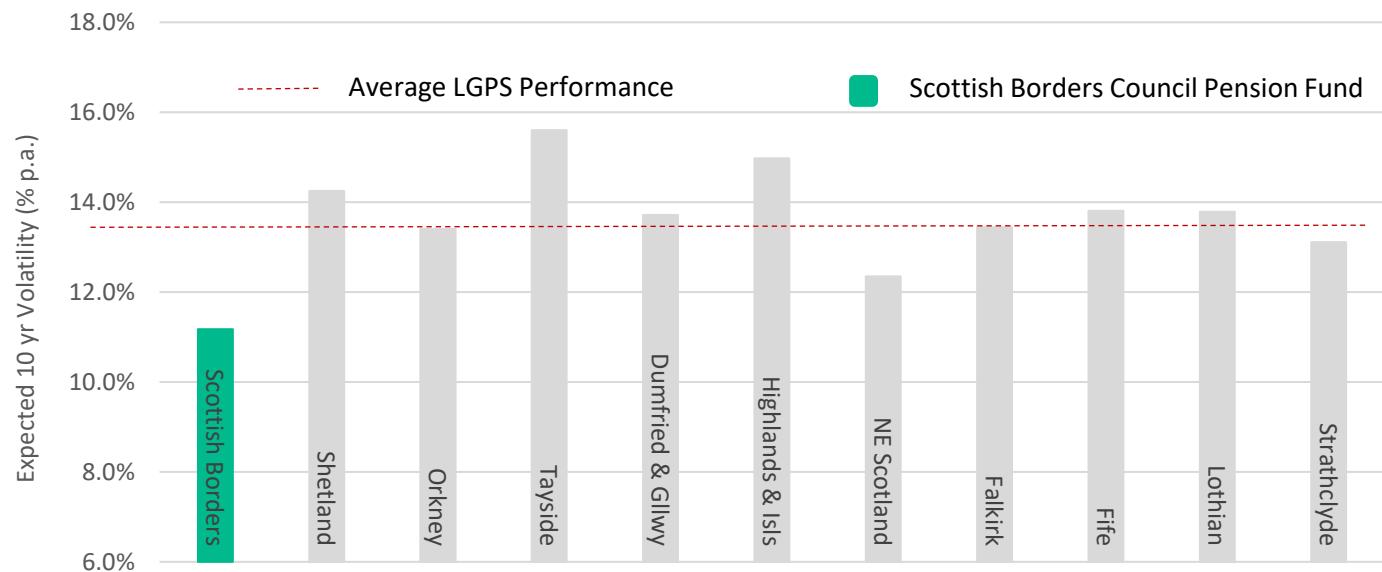


Source: Publicly available report and accounts as at 31 March 2020. 3 year performance figure for Lothian Pension Fund sourced from publicly available actuarial valuation report as at 31 March 2020. Information given is estimated by Isio and based on our assessment of publicly available information

Expected Volatility (% p.a.)

Page 215

	Scottish Borders Fund	Average Scottish LGPS	Difference
Year Forecast Absolute Volatility (% p.a.)	11.2%	13.6%	-c.18%



Source: Isio ALM as at 31 March 2021. High level asset allocations for individual SLGPS Schemes were estimated using strategic allocation targets from publicly available information such as report and accounts, statement of investment principles and actuarial valuation reports. Volatility figures produced are estimates based on Isio's 10 year absolute volatility forecasts and provide a broad indication of the level of risk in a particular investment strategy.

Introduction

Page 216

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Introduction

Addressee

- This report is addressed to the Scottish Borders Council ("the Council") as the Administering Authority of the Scottish Borders Council Pension Fund ("the Fund").
- The focus of this report is to review the Fund's existing investment strategy, quantify the inherent risks and consider the options for the evolution of the strategy. Isio has also been asked to focus on certain key areas of the portfolio, and to recommend how these should evolve going forward.

Scope

- This report provides a detailed review of the Fund's current investment strategy, asset allocation and investment structure, including:
 - Portfolio-level risk/return characteristics;
 - The projected evolution of the funding position;
 - An assessment of the suitability of the current overall asset allocation;
 - An assessment of the suitability of the make-up of the Fund's equity portfolio, alternatives mandate, and real assets mandate, from an investment manager perspective and within the context of the wider strategy;
 - Consideration of potential opportunities which could be suitable for the Fund;
 - A range of alternative portfolios which we believe may be better aligned to the Fund's objectives considering the inflation characteristics, liquidity and overall risk/return requirements.
 - The Fund's cash flow requirements and how these are expected to evolve going forward

Page 217

Current strategic benchmark

		Allocation
Equity	Passive Equity	6%
	Active Equity	34%
Alternatives	Multi-Asset Alternatives	7.5%
Public Credit	Diversified Credit	10%
	Index-Linked Gilts	5%
Private Credit	Direct Lending	10%
	Senior Infrastructure Debt	5%
	Junior Infrastructure Debt	2.5%
Property	Balanced Property	5%
	Long Lease Property	10%
Infrastructure	Infrastructure Equity	5%
Total		100%

Objectives

Objectives

- We understand that the Council's funding objectives, as outlined in the June 2020 Statement of Investment Principles, are:
 - To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefit basis.
 - To set levels of employer contributions that will build up assets that will be sufficient to meet all future benefit payments from the Fund.
 - To build up the required assets in a way that produces employer contributions, which are as stable as possible.

These objectives can be translated into delivering an investment return that improves the funding level over time (in order to maintain current employer contribution rates, and potentially result in future reductions in employer contribution rates), with as little volatility in the funding level as possible (to maintain stability of contributions as far as possible), and maintain sufficient assets to meet overall liabilities i.e. an overall funding position of 100% or more. The assumptions underlying the Actuary's funding basis are important factors in determining the return requirement.

- As the Fund grows in absolute terms, it will also be important to ensure that stability, relative to sponsor budgets, is maintained.

Evolution

- The Fund remains open to new members and future accrual. It is therefore growing due both to interest accruing on past service liabilities, and due to new liability accrual. The liabilities are also maturing (the proportion of pensioner members is growing) and this will continue to change the cash flow profile of the Fund over time. The Fund has already entered a cashflow negative position, with more cash being paid out than is received in cash contributions. However, we believe the investment strategy is suitably positioned to manage the current expected shortfall.

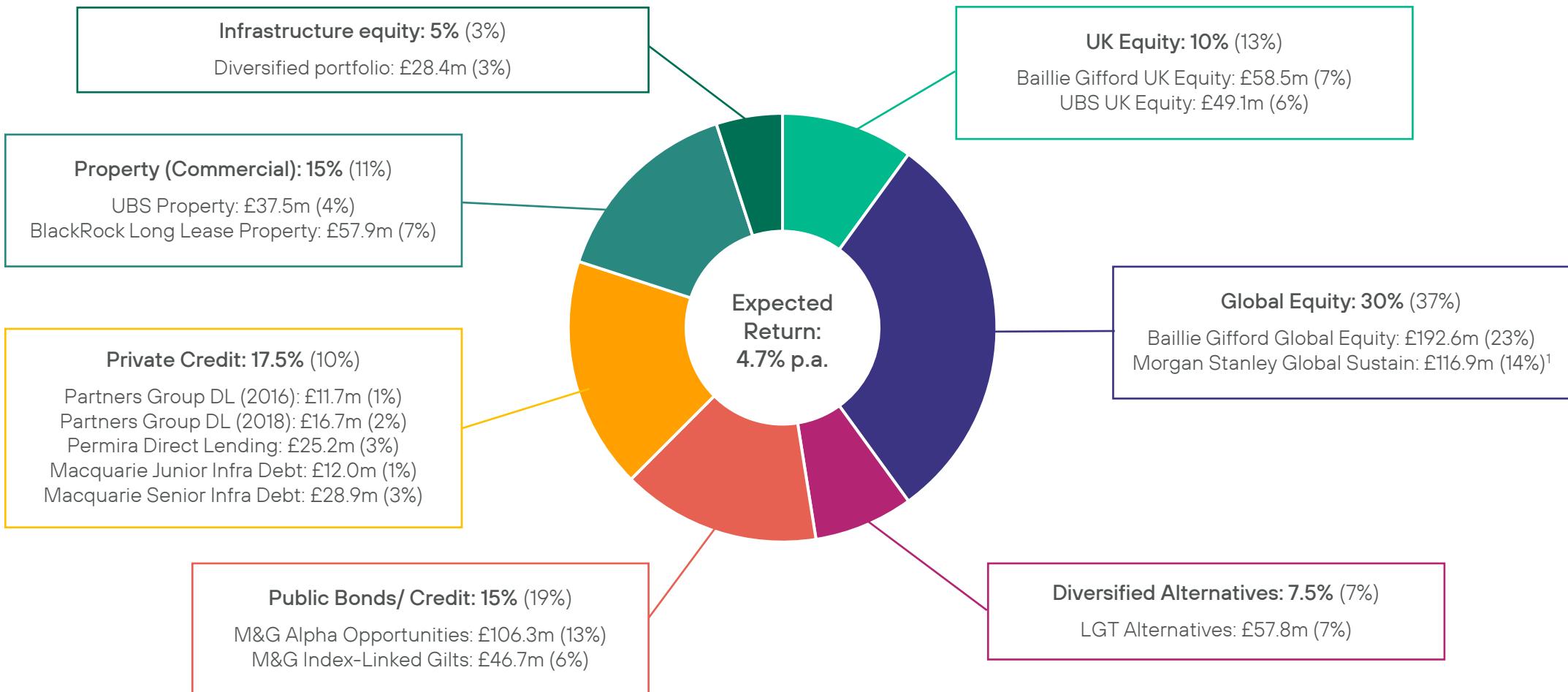
What Return is Required?

- At the March 2020 Actuarial Valuation, the discount rate used to value the liabilities was 3.8% p.a.. This was based on the Actuary's estimate that the Fund's current investment strategy would deliver a return of 3.8% p.a. over the next 20 years, with a 70% likelihood of achieving this. For past service, the Actuary requires the Fund's assets to **deliver at least 3.8% p.a.** to support the current strong funding position. Given the methodology used to set contributions the investment return needs to be higher than this.
- The reduction in the discount rate over the period since the 2017 Actuarial Valuation (5.0% p.a. to 3.8% p.a.) is reflective of the continued decline in gilt yields over the period. This reduction in gilt yields has also driven a reduction in the expected return of individual asset classes and the Fund's overall assets.
- The discount rate is quoted on an absolute basis, however, it can be translated to reference Gilts. Whilst the discount rate has no explicit link to Gilt markets, we would expect there to be an implicit connection – in the belief that the prospective future returns from all markets are inherently linked to the risk free rate. Low prospective returns from Gilt markets would imply future returns from other markets (assuming investors are rational).
- Our analysis gives the best estimate expected return for the Fund's current investment strategy was 4.9% p.a. as at 31 March 2020.
- The difference between the expected return of 4.9% p.a. and the required return of 3.8% p.a. reflects an element of prudence in the Actuarial funding assumptions, which is to be expected. Given the significant surplus that has arisen following the valuation date, there may be some scope to reduce overall risk and return if desired. This would need to be confirmed with the Fund Actuary.
- As at the date of modelling in this report, 31 December 2020, we estimated the expected return of the Fund's investment strategy to be 4.7% p.a.

Current Strategy

Investment Strategy Overview

Key
Target allocation (Actual allocation)



Current Asset Allocation – Actual vs Target

Mandate	Current Asset Allocation	Outstanding Commitment	Total Commitment (adjusted) ¹	% (adjusted)	Strategic Benchmark	Relative Position
Baillie Gifford UK Equity	£58.5m	-	£48.4m	6%	4%	+2%
UBS UK Equity	£49.1m	-	£39.0m	5%	6%	-1%
Baillie Gifford Global Equity	£192.6m	-	£182.5m	22%	18%	+4%
Morgan Stanley Global Sustain	£116.9m ²	-	£116.9m	14%	12%	+2%
LGT Alternatives	£57.8m	-	£57.8m	7%	7.5%	-1%
M&G Alpha Opportunities	£106.3m	-	£106.3m	13%	10%	+3%
M&G Index-Linked Gilts	£46.7m	-	£46.7m	6%	5%	+1%
Partners Group 2016 Fund	£11.7m	-	£11.7m	1%	2.5%	-1%
Partners Group 2018 Fund	£16.7m	-	£16.7m	2%	2.5%	-1%
Permira Direct Lending	£25.2m	£2.5m ³	£27.7m	3%	5%	-2%
Macquarie Junior Infrastructure Debt	£12.0m	£6.0m ⁴	£17.9m	2%	2.5%	0%
Macquarie Senior Infrastructure Debt	£28.9m	£8.0m	£36.9m	4%	5%	-1%
UBS Property	£37.5m	-	£37.5m	4%	5%	-1%
BlackRock Long Lease Property	£57.9m	-	£57.9m	7%	10%	-3%
Infrastructure Equity	£28.4m	£13.9m ⁵	£42.3m	5%	5%	-

Source: Investment managers at 31 December 2020. ¹Accounts for outstanding capital commitments which are still to be drawn down. ²Morgan Stanley Global Sustain value includes Global Brands allocation, given the Fund switched the full allocation into Global Sustain over Q1 2021. ³Outstanding capital commitment, however, it is not expected that the manager will draw down this capital. ⁴Undrawn capital commitment converted into GBP based on exchange rate at 31 December 2020. ⁵Given lack of information, manual calculation made to align the overall allocation with the 5% strategic allocation. Outstanding capital commitments funded from pro-rata deduction from the Fund's global equity and UK equity mandates with Baillie Gifford and UBS.

Note: Totals may not sum due to rounding

Funding Trajectory

Comments

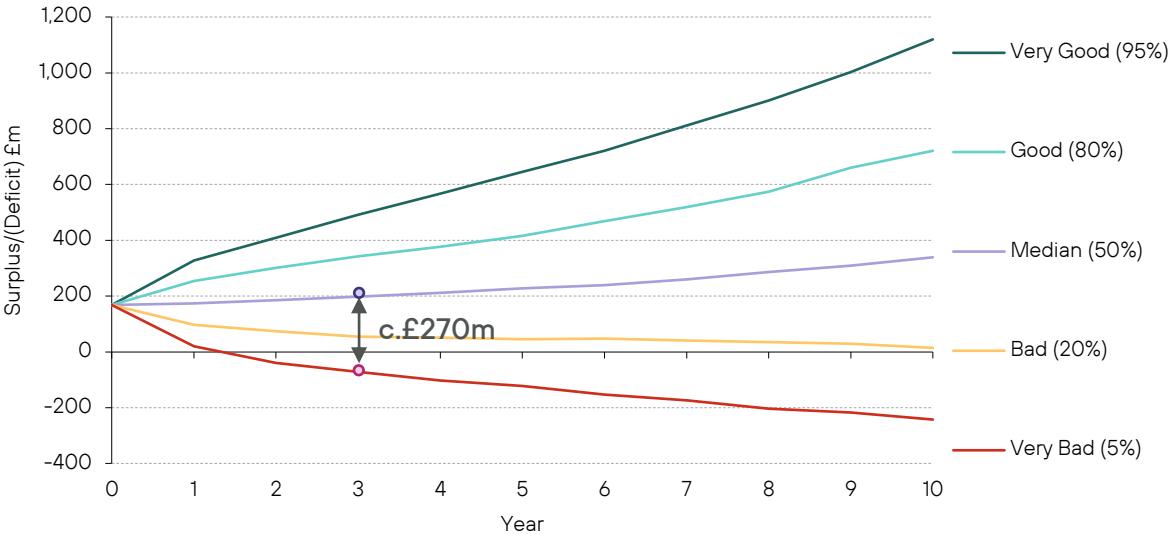
- The central expectation is for the funding position to improve and increase gradually over time due to investment returns, and employer and employee contributions.
- Based on the estimated 31 December 2020 position, and median predicted outcome going forward, we expect the Fund to be in a surplus of c.£200m in 3 years' time (up from c.£168m at the end of December).
- Ultimately any surplus could be used to bring down the future service cost of the Fund to the employers. This has already been seen to some degree, with the Fund's secondary contribution moving from -2.6% to -4% since the last Actuarial Valuation.

The chart opposite highlights the degree of variation (both upside and downside) that the Fund is exposed to by the current investment strategy. This volatility could have a material impact on the funding position and the future cash funding requirements.

Given the current investment risk in the strategy, there is a 1 in 20 chance that a deficit of c.£70m or more could arise in 3 years' time – this could trigger a shift in the secondary contribution, and potential increase in the Fund's primary contribution rate (depending on the market drivers for the change).

- Given the very strong funding position achieved, we believe there is scope to reduce investment risk to reduce the impact of any potential downside scenarios, essentially narrowing the range of potential outcomes. Having said that, the Fund needs to continue to drive forward return to maintain the funding position.

Current Strategic Benchmark



Funding Position (estimated) – 31 December 2020

Discount Rate	Gilts + 3.4% p.a.
Current Surplus (Deficit)	c.£168m
Current Funding Level	c.125%

Forecast Funding Position – 3 Years time

Expected deficit / surplus	c.£200m
Expected funding level	c.130%
Estimated Funding Deficit (1 in 20 chance (5%))	c.£70m

Source: Hymans Robertson, Investment managers, Isio calculations

Notes: Start funding position has been estimated by Isio, by rolling liabilities provided by Hymans from 31 March to 31 December.

Risk Analysis

Key Risks

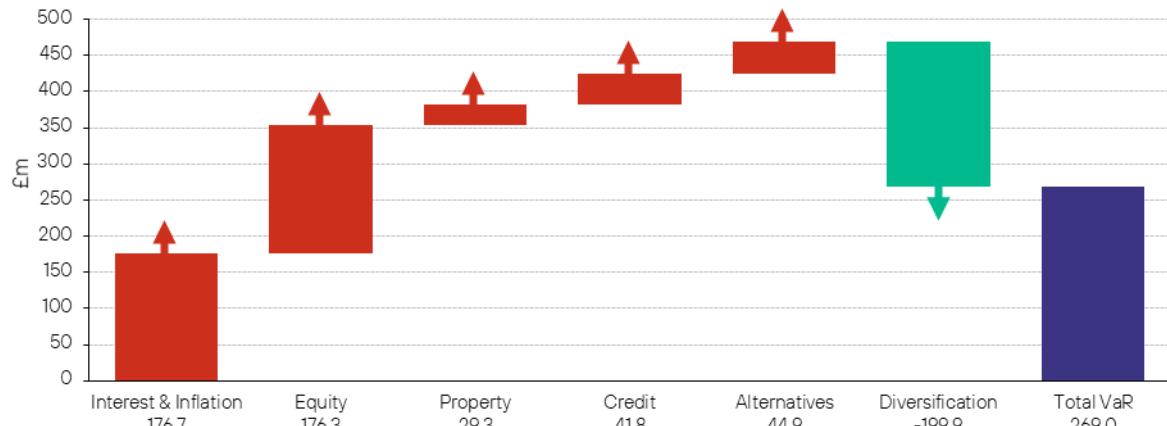
- The charts opposite illustrate the overall level, and composition of investment risk in both the strategic and current asset allocations, as measured by the 1 in 20, 3 year Value at Risk ("VaR"). The VaR represents the difference in the funding position in three years' time between the expected outcome and a 1 in 20 downside scenario.
- The total risk (3 year, 1 in 20 VaR) for the strategic allocation is c.£270m, i.e. that there is a 1 in 20 chance that the Fund could be c.£270m behind its expected trajectory in 3 years time.
- The Fund's key risks are its equity exposure and inflation risk inherent within its liabilities.
- The Fund's 40% strategic allocation to equities means that a fall in equity valuations would result in a material decrease in the Fund's assets (similar to that experienced over Q1 2020, though this was quickly reversed).

Page 223

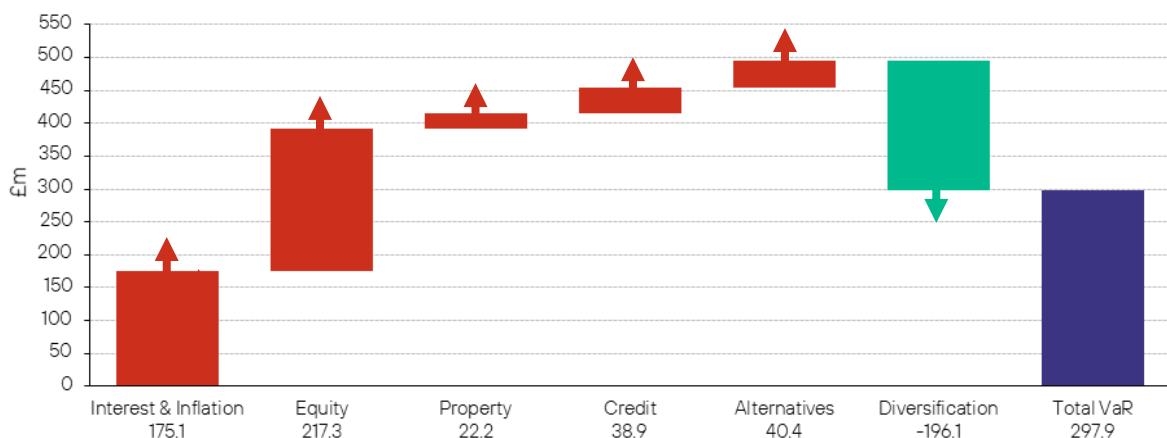
The significant risk from inflation is due to the majority of the pension benefits in the Fund being directly linked to inflation. This is an area which the Fund has been actively looking to address over recent years, by continuing to build out exposure to sources of inflation - a higher allocation to inflation-linked assets provides a better match for the pension payments linked to inflation and decreases the risk position of the Fund.

- Whilst these risk exposures account for the significant majority of the Fund's overall risk exposure, they are inherently different in nature. Inflation risk is "unrewarded" whereby investors are not compensated for accepting the risk. Whereas equity risk is "rewarded", and the Fund should benefit, in the form of growth in its assets, for accepting this risk.
- We believe the Fund should look to address these risks as part of any strategic changes via the following actions:
 - 1) continue to increase the Fund's exposure to inflation-linked assets
 - 2) restructure the equity portfolio to focus on geographies/sectors expected to benefit from structural tailwinds over the coming years.

Current Strategic Benchmark – Value at Risk (3 year, 95% breakdown)



Current Actual Allocation – Value at Risk (3 year, 95% breakdown)



Source: Hymans Robertson, Investment managers, Isio calculations

Notes: Start funding position has been estimated by Isio, by rolling liabilities provided by Hymans from 31 March to 31 December 2020.

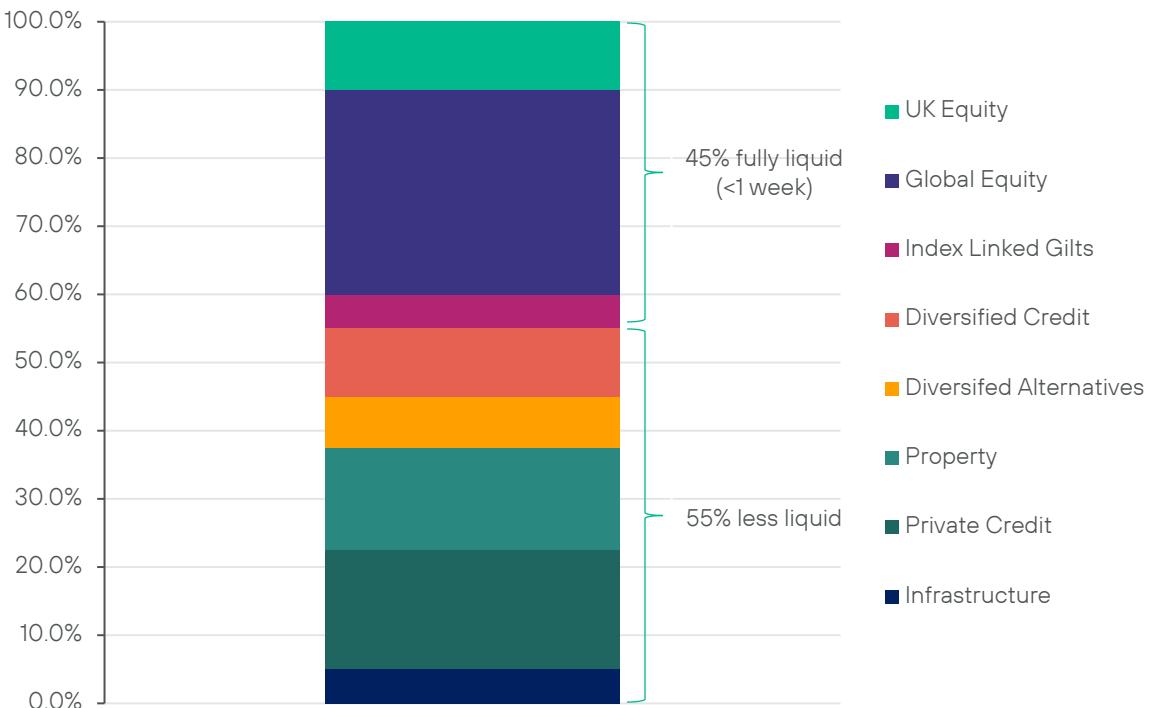
Liquidity profile

Key Observations

- Based on the target strategic allocation, we believe the asset strategy remains suitably balanced between liquid and illiquid asset classes. Currently, 55% of assets are invested in less liquid asset classes, with the remaining 45% being able to be liquidated to provide flexibility if required.
- Whilst the Fund is large, around 45% of the portfolio could be liquidated relatively quickly with limited market impact. We do not envisage any circumstances where the Fund would need this level of liquidity or flexibility.
- Although there is scope to further increase the allocation to less liquid markets, we believe the Fund should maintain its current sizeable allocation to equities to help generate sufficient levels of return. As such, we would not recommend that this allocation is further reduced.
We believe there is scope for the Fund to restructure its illiquid assets to generate more attractive risk-adjusted returns, given the opportunities available in the market today.
- Typically the less liquid asset classes are sources of income which the Fund currently uses to help meet cashflow needs. Although we do not believe it will be a key driver in setting the Fund's strategic asset allocation, we have provided further details on the Fund's cashflow requirements in the Appendix.

Page 224

Strategic Asset Allocation - Overview



Underlying Liquidity – Strategic Asset Allocation

Daily	45%
Monthly	10%
Quarterly	7.5%
Illiquid (> 1 year)	37.5%

Source: Investment Managers

Areas of focus

1. Equity Portfolio
2. Alternatives Portfolio
3. Real Assets Portfolio

Equity Portfolio: Overview

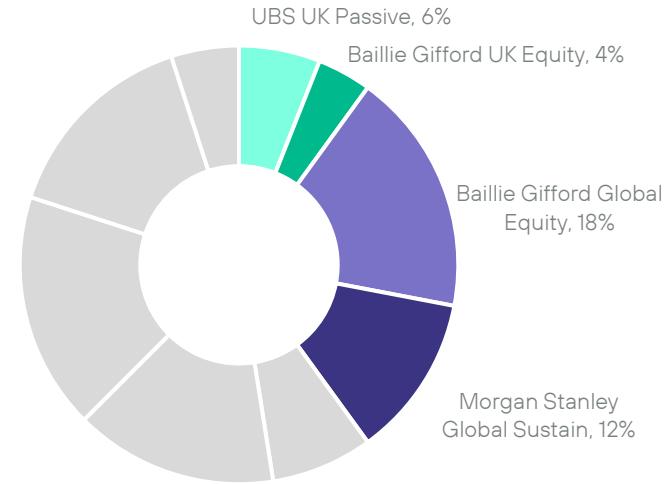
Overview

- The Fund's equity portfolio has the largest strategic weighting (40%) within the investment strategy, and is expected to be the core driver of long term return. The equity portfolio is currently comprises four components: active mandates with Baillie Gifford (UK Alpha and Global Alpha) and Morgan Stanley (Global Sustain), as well as a passive allocation managed by UBS (UK Passive).
- The equity allocation is currently overweight, relative to the Fund's strategic benchmark (49% vs 40%). This is partly due to the strong relative performance of the Baillie Gifford mandates over recent years and due to commitments to private markets that have not yet been called down.

The Fund has implemented significant changes to the equity portfolio over the past 5 years, including reducing the portfolio's overall exposure, reducing the UK equity bias, removing the mandate previously managed by Harris Associates, and introducing some exposure to sustainable equity mandates.

- Despite reducing its exposure, the portfolio retains a bias towards UK equities (25% of equity portfolio).
- The Fund also has a bias towards growth equities, due to the significant allocations with Baillie Gifford. This is balanced to some degree by the quality focused mandate with Morgan Stanley. The growth bias has served the fund extremely well in recent years as these stocks have significantly outperformed.
- The Fund has streamlined its allocation with Morgan Stanley, consolidating overall exposure within the Global Sustain Fund. This activity was carried out over Q1 2021, and further increased the Fund's exposure to sustainable equity.
- We believe any changes to the existing equity portfolio should continue to build on the work done to date, and focus on the following:
 - Addressing the existing regional (and to a lesser degree sector) biases.
 - Increasing the ESG credentials of the Fund.

Current Strategic Breakdown – as at 31 December 2020



Key Characteristics	UBS	Baillie Gifford	Morgan Stanley
Mandate	UK Passive	UK Alpha	Global Alpha
Value (31 December 2020)	£49.1m	£58.5m	£192.6m
% of Fund Assets (31 December 2020)	c.6%	c.7%	c.23%
Style	Passive	Growth	Growth
Fees (p.a.)	0.05%	0.28%	0.28%
			0.50%

Source: Investment Managers as at 31 December 2020. ¹Morgan Stanley Global Sustain value includes Global Brands allocation, given the Fund switched the full allocation into Global Sustain over Q1 2021.

Equity Portfolio: Proposed Evolution

- Baillie Gifford, one of the Fund's existing active investment managers, has recently developed a range of market leading ESG focused products which we believe the Fund should consider. This will help the Fund to further increase its ESG credentials in a low cost, efficient manner, and with a manager who has already added significant value for the Fund.
- We believe that the passive mandate should be reviewed to make this more global (reducing the bias to UK equities) and to consider sustainable indices. This will likely require a move away from UBS given their limited fund range in this space.

Passive Equity Options

- There are now a range of passive equity indices that build in explicit consideration of ESG factors. We recommend that the Fund replaces the UBS mandate with a global equity index product that builds in explicit consideration of these factors. The Fund will need to undertake work on selecting an appropriate index and manager to deliver this if this is pursued.
- We include an example of one approach below in order to illustrate what this could achieve.
- **Example - LGIM Future World Fund:** LGIM launched the Future World Fund in 2018, and provides investors access to a global passive equity product, with constituent weightings influenced by individual companies ESG scores.
- LGIM utilise 28 ESG indicators (including 6 Transparency indicators) which they believe to be material, and for which they have reliable and sufficient sources of data for. Each of the 22 ESG indicators receive a score from -1 to 1, which is then applied as a factor the FTSE World Index. "E", "S" and "G" each receive an equal weighting and LGIM look to apply deductions to scores where transparency measures (e.g. tax disclosures) are not satisfied. Once scores have been finalised, LGIM look to tilt the index towards those companies which have the highest scores across the individual E, S and G criteria.
- There are a range of approaches available and we recommend the Fund should explore these as an alternative to the existing UK equity passive mandate.

Page 227

Active Equity Options

- **Global Alpha Paris Aligned ("GAPA"):** Baillie Gifford has recently launched a variant of Global Alpha (the Fund's existing Global equity mandate with Baillie Gifford), which seeks to align itself with the climate objectives of the Paris agreement.
- The Paris Aligned strategy has significant overlap (c.95%) to the Global Alpha strategy. However, the mandate will adopt a carbon commitment to have a Weighted Average Carbon Intensity ("WACI") of broadly half the standard MSCI All Countries World Index. Baillie Gifford apply a quantitative and qualitative screen to the stock selection process to exclude high-emission companies that do not have an important role to play in the transition a low carbon economy.
- **Baillie Gifford Positive Change Fund:** The Positive Change Fund looks to deliver on two equally important objectives: 1) to deliver attractive long-term returns and 2) to deliver a positive change by contributing towards a more sustainable and inclusive world.
- Baillie Gifford assesses the "positive change" factor by ensuring a portfolio company can be successfully classified within one of its four impact themes: Social Inclusion and Education, Environment and Resource Needs, Healthcare and Quality of Life and Base of the Pyramid (addressing the needs of the poorest 4 billion people on the planet).
- We recommend the Committee should explore these propositions as an alternative to the existing Baillie Gifford allocations.

Equity Portfolio: Proposed Structure

Proposed Portfolio

- There are a number of characteristics to consider when restructuring the portfolio:
- **Balance of active and passive exposure:** we propose replacing UBS as the Fund's passive equity manager, and potentially increasing the Fund's overall allocation to passive equity to 10% (from 6% today). This would act to address the existing UK bias, help manage the cost of the overall portfolio and mark a further step in relation to ESG if a sustainable approach was pursued.
- **Balance of style exposure:** we propose that this is rotated, to reduce the Fund's bias to growth style and lock in some of the strong returns the Fund has benefited from in recent years. The existing Morgan Stanley mandate has a quality focus, which we believe suitably complements the growth focus from Baillie Gifford. However, consideration should also be given to the active/passive split, as noted above. As such, we believe the Fund should consider switching a portion of the Baillie Gifford mandate into a global ESG passive option whilst broadly balancing the style exposure. Ensuring the Fund's equity portfolio has an appropriate style balance should allow it perform well across a range of market environments.
- **Geographical exposure:** we propose this is adjusted from the current weightings (broadly 25% UK, 75% global). We have reduced the Fund's exposure to UK equities by removing the Baillie Gifford UK Alpha mandate and the UBS UK Passive mandate. The proposed portfolio would see the weighting to UK equities reduce, broadly in line with market capitalisation. We would propose a phased implementation.
- Although notably smaller, we believe the proposed strategic allocation to the Baillie Gifford Positive Change Fund to be appropriate given the fund is relatively concentrated in terms of stocks it holds.
- We believe this proposed structure moves the Fund forward significantly in terms of increasing its ESG credentials in a manner that retains a diversified equity portfolio, with the potential to deliver material outperformance over time.

Alternative Portfolio		
Mandates	Current	Proposal
UBS UK Passive	6%	-
Baillie Gifford UK Alpha	4%	-
Baillie Gifford Global Alpha	18%	-
Morgan Stanley Global Sustain	12%	13%
Baillie Gifford Positive Change	-	2%
Baillie Gifford Global Alpha Paris Aligned	-	15%
Passive Global ESG index	-	10%
Total	40%	40%

Isio View

- We believe that the Fund should maintain its existing strategic allocation to equities, but focus on restructuring the existing portfolio to target a more balanced, robust and sustainable approach.
- Baillie Gifford, one of the Fund's existing equity managers, has developed a number of market leading ESG focused products over recent years. Switching the existing allocations into one or more of these alternative funds would help the Fund achieve its objectives.
- We would recommend the Fund considers an alternative global index and potentially manager for the passive mandate.

Diversified Alternatives: Overview

Overview

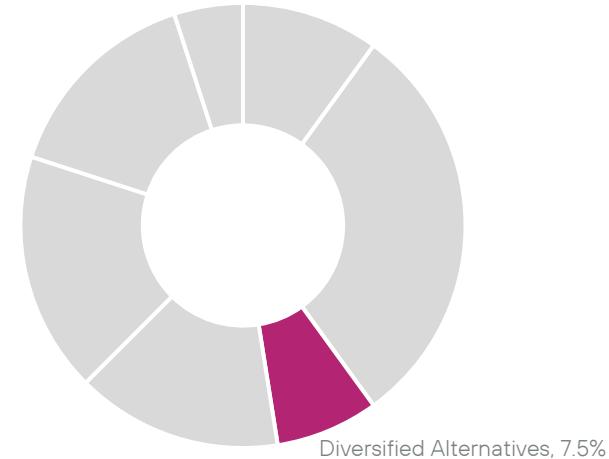
- The Fund's alternatives portfolio represents 7.5% of the Fund's strategic asset allocation, and is marginally underweight within the current asset mix. The Fund's alternatives mandate is managed by LGT, and is currently comprised solely of an allocation to the pooled LGT Crown Multi-Alternatives Fund.
- The Fund has implemented significant changes to the alternatives mandate over recent years, initially halving the exposure from 15% to 7.5% of Fund assets, and more recently switching from a segregated portfolio into LGT's pooled fund offering.
- Whilst we are broadly supportive of an allocation to diversified alternatives, we do not believe the Fund's existing mandate is optimal.

- Page 229
- As part of ongoing discussions with LGT, we had been made aware of a new alternatives product being launched by LGT. We have carried out an initial fact finding call with LGT to better understand the new strategy, but do not believe that this is appropriate given the high costs involved. We have included a summary, and comparison of the new strategy versus the existing mandate in Appendix 4.
- We recommend trimming the exposure to the LGT allocation further and replacing this with other investment opportunities. We consider these within the alternative strategies in the following section of this report.

Isio View

- We do not believe the current structure of the Fund's alternatives mandate to be optimal, and that the Fund should consider the role which the mandate is fulfilling within the current strategy.
- Following our review, we believe the new product available from LGT is less suitable for the Fund from a strategic point of view than the existing mandate and would be more costly.
- We recommend the Fund look to further reduce its exposure to the alternatives portfolio, in line with the direction of travel to date.

Current Strategic Breakdown – as at 31 December 2020



Key Characteristics		LGT
Mandate		Diversified Alternatives
Value (31 December 2020)		£57.8m
% of Fund Assets (31 December 2020)		c.7%
3 Year Fund Return (Net)		5.1% p.a.
3 Year Benchmark Return ¹		4.6% p.a.

Source: Investment Manager, Isio calculations. ¹Fund benchmark shown as 3-month Libor + 4% p.a.

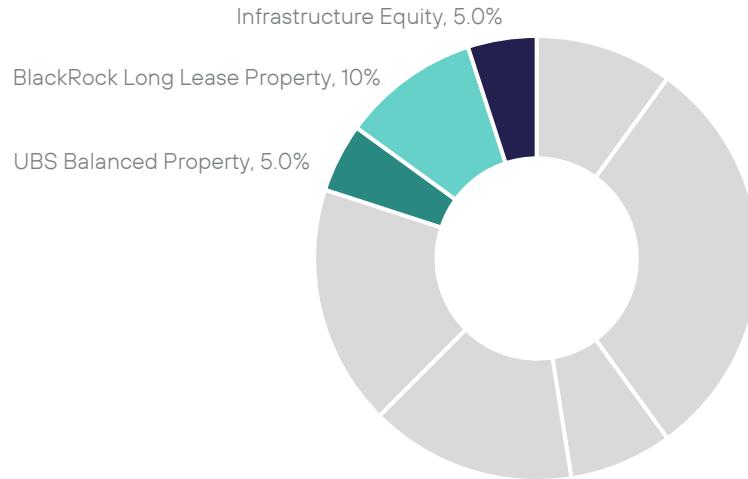
Real Assets: Overview

Overview

- The Fund's real assets portfolio represents 20% of the Fund's strategic asset allocation, providing inflation protection and a stable income stream.
- The Fund has worked to broaden the reach of the real assets portfolio, implementing the Long Lease Property mandate with BlackRock, and the Infrastructure Equity mandate, in conjunction with the Lothian Pension Fund, starting in 2016.
- Whilst the Long Lease Property mandate is now fully drawn, capital deployment within the Infrastructure Equity mandate has been slower than anticipated.
- The Balanced Property mandate has been significantly simplified over the past 5 years, with the number of underlying allocations significantly reduced. These changes have served to streamline the mandate, and reduce costs to the Fund. We continue to have questions over the strategic suitability of this mandate going forward and also concerns about the approach taken by UBS. We therefore recommend that this is unwound and ultimately removed from the strategy.
- We have had an initial discussions with UBS to understand what options are available to the Fund to unwind the portfolio, and provide further details in Appendix 5.

Page 230

Current Strategic Breakdown – as at 31 December 2020



Key Characteristics	UBS	BlackRock	Infrastructure Equity
Mandate	Commercial – Balanced Property	Commercial – Long Lease Property	Infrastructure Equity
Value (31 December 2020)	£37.5m	£57.9m	£28.4m
% of Fund Assets (31 December 2020)	4%	7%	3%
Fully Deployed	Yes	Yes	No – still drawing down capital

Source: Investment Manager, Isio calculations.

Real Assets: Proposed evolution

Proposed Portfolio

- There are a number of factors to consider when restructuring the real assets portfolio:
 - **Balance between property and infrastructure mandates:** we continue to see attractive investment opportunities within infrastructure, some of which have a strong sustainability focus, and believe the Fund should continue to build out this exposure due to the alignment to strategic objectives it provides. Doing so would continue to increase the overall level of inflation-linked assets within the Fund's portfolio.
 - Although the UK property market has experienced significant disruption over recent years, attractive investment opportunities remain in certain sectors. We believe the strategic allocation to property remains appropriate, and that the Fund should look to restructure its existing holdings.
 - **Balance of sub-asset class exposure:** currently the Fund's property exposure focuses solely on commercial property. Any proposed changes would support the broadening of this exposure through the introduction of a residential mandate – this new allocation could be largely funded from the unwinding of the existing Balanced Property mandate with UBS - and would diversify existing holdings through the introduction of a different driver of risk/return. Some of the residential investment propositions have a strong social focus.
 - The current Infrastructure Equity mandates and Long Lease Property mandates are currently underweight. The Infrastructure Equity mandate continues to draw capital and, due to the way this is structured, maintains flexibility to increase commitments through time. The Long Lease Property allocation will require additional commitments in order to increase the allocation towards benchmark – we suggest these are funded in part from the existing core property allocation.
 - We are aware that the pace of capital deployment of the Infrastructure Equity mandate has been slower than anticipated, and that this has been a source of frustration for the Fund. We propose any increase to Infrastructure Equity be implemented via a pooled fund arrangement to speed up deployment.

Page 231

Alternative Portfolio

Mandates	Current	Proposed
UBS Balanced Property	5%	-
BlackRock Long Lease Property	10%	12%
Infrastructure Equity (Lothian)	5%	5%
Residential mandate	-	2.5%
Infrastructure Equity (Pooled)	-	3%
Total	20%	22.5%

Note: Proposed weightings are based on future strategic weights.

Isio View

- We recommend the Fund exits the UBS Balanced Property mandate, with a view to recycling the proceeds into more attractive opportunities within the UK Property market.
- From discussions with UBS, we believe the most appropriate way to manage this activity would be to increase the level of discretion which they have over the portfolio, allowing them to manage the disinvestment process on the Fund's behalf, within pre-agreed disinvestment guidelines.
- We would recommend the Fund look to continue building out the real assets portfolio, with a particular focus on investment opportunities within infrastructure. This would serve not only to increase the portion of Fund assets' with direct inflation exposure, but could also be selected to further demonstrate the Fund's commitment to ESG.

Alternative Strategies

Page 232

isio.

Direction of Travel

Evolution Not Revolution...

- The Fund's investment strategy remains well positioned – targeting a reasonable level of return for a modest level of downside risk. This is reflective of the work which the Fund has done to restructure its investment strategy over the past 5 years.
- As such, we believe evolution of the existing asset base and manager line-up is preferable. The strategic considerations below are areas we believe the Fund could evolve to better align the strategy with the agreed funding objectives.

Key Strategic Considerations as Part of this Strategy Review

Page 233 1. Restructure equity portfolio

Restructuring the existing equity portfolio to address the regional/style biases, and increase the ESG credentials of the Fund.

2. Restructure real assets portfolio

Restructuring the real assets portfolio to achieve better risk-adjusted returns, through investments in different areas of the UK property market. e.g. residential property

3. Increase inflation exposure

Increase the Fund's exposure to assets which provide inflation exposure to help manage risk e.g. infrastructure and residential property.

4. Enhance ESG credentials

Build on the work done to date by further enhancing the Fund's ESG credentials through select new investments within the equity and real assets portfolio.

Alternative Portfolios

Action	Reduced	Increased
--------	---------	-----------

Asset Class	Mandate	Current Strategic Allocation	Alternative Strategy
UK Equity	Passive	6%	-
	Active	4%	-
Global Equity	Passive	-	10%
	Active	30%	30%
Diversified Alternatives	Multi-Asset Alternatives	7.5%	4%
Public Credit	Diversified Credit	10%	10%
	Index-Linked Gilts	5%	6%
Private Credit	Direct Lending / Diversified Private Credit	10%	10%
	Junior Infrastructure Debt	2.5%	2.5%
	Senior Infrastructure Debt	5%	5%
Property	Commercial – Balanced	5%	-
	Commercial – Long Lease	10%	12%
	Residential – TBC	-	2.5%
Infrastructure	Infrastructure Equity	5%	8%
Expected Return (absolute)		4.7%	4.5%
VaR (3 year, 95%)		£269.0m	£255.7m
Inflation Linkage (total exposure) ¹		25%	33.5%

Notes: ¹Inflation linkage includes assets which provide either direct or indirect inflation exposure. Direct inflation exposure relates to an asset where both the capital and income provide linkage to inflation e.g. Senior Infrastructure Debt. Indirect inflation exposure relates to the income stream, generated by the underlying asset, which is linked to inflation e.g. Infrastructure Equity.

Additional Considerations

Consideration	Description	Comments
1. Realigning the illiquid mandates with the strategic benchmark Page 235	<ul style="list-style-type: none"> The Fund's allocation to Direct Lending, and Long Lease Property are strategically underweight. 	<ul style="list-style-type: none"> 2 of the Fund's 3 Direct Lending mandates (Partners Group 2016 and Permira) have entered their distribution phase, and are in the process of returning capital to the Fund. As such, if the Fund does nothing this allocation will continue to reduce in size and move further underweight. We propose the Fund looks to consider ways to increase this allocation back towards target. High level options are invest in a current vintage of an existing Direct Lending manager, carry out a selection exercise, so that an appropriate alternative fund can be selected or consider an allocation to Diversified Private Credit – which we believe is an attractive way to gain a diversified exposure to broader private debt markets Consideration should also be given to the Long Lease Property mandate, and whether this should be topped up as part of any restructuring of the Fund's real assets portfolio. Given this is an open ended structure this can be done in the current mandate.
2. Overall Fund Governance	<ul style="list-style-type: none"> The Fund currently has 12 mandates, implemented via 10 different managers. 	<ul style="list-style-type: none"> Across the 12 mandates, and 10 managers, the Fund has investments in 16 individual funds¹. Any restructuring of the Fund's assets should be done with a view to minimising any increase to the existing investment arrangements, to avoid further increasing the overall governance burden.
3. Reducing the Diversified Alternatives mandate	<ul style="list-style-type: none"> The Fund is no longer invested via a segregated mandate with LGT, and so is not restricted by the same minimum investment amount threshold previously faced. 	<ul style="list-style-type: none"> The Fund recently switched from a segregated mandate to LGT's pooled fund, removing the high minimum investment amount previously faced. We continue to believe that the current mandate has limited strategic rationale, and are of the view that the new product launched by LGT is less suitable than the existing mandate. We would recommend that the Fund look to further reduce its exposure to this mandate, in line with the direction of travel to date.

Notes: ¹ We have looked to classify the Infrastructure Equity implemented with Lothian as one mandate/manager. In reality we understand that this is implemented via a number of underlying managers, which adds additional complexity.

Additional Considerations (cont.)

Consideration	Description	Comments
4. Transaction Costs	<ul style="list-style-type: none">There is explicit transition costs associated with the movement of any assets.	<ul style="list-style-type: none">The estimated round trip transaction costs in normal market conditions for the asset classes considered (as a % of assets moved) are:<ul style="list-style-type: none">Equity Up to 0.3% exitDiversified Alternatives None expectedIndex-Linked Gilts Up to c.0.1% entryDirect Lending None expectedBalanced Property Up to 2% exitResidential Property c.3% round trip costInfrastructure Equity (Pooled) Up to c.5.0% entry
5. Exposure to Partnerships	<ul style="list-style-type: none">The Fund will need to consider the overall exposure to Partnerships given regulatory limits.	<ul style="list-style-type: none">The implementation of any increases in private market exposure will need to be considered carefully as many of these less liquid investments are structured as Partnerships.It may be feasible to access some assets via open ended investment structures if the overall limit is of concern. This could be considered for the increase to the Infrastructure allocation.

Summary and Next Steps

Summary and Next Steps

Summary

- The Fund has delivered strong investment returns in recent years during a period in which most asset markets have trended upwards. This performance has led to a surplus, of c. £63m at the March 2020 actuarial valuation.
- Using a roll forward of Fund liabilities, we estimate that the Fund's surplus as at 31 December 2020 will be closer to £160m. The material improvement in funding position has been largely driven by the strong rebound in asset valuations experienced over the remainder of 2020, driven by the widespread monetary and fiscal stimulus packages announced in light of the Covid-19 pandemic.
Whilst equity risk remains one of the Fund's biggest risks, we believe that the Fund should maintain its existing strategic allocation to equities, and instead focus on restructuring the existing portfolio to target a more balanced, robust and sustainable approach.
- We do not believe the current structure of the Fund's alternatives mandate to be optimal, and that the Fund should consider the role which the mandate is fulfilling within the current strategy. We would recommend the Fund look to further reduce its exposure to the alternatives portfolio, in line with the direction of travel to date.
- We would recommend the Fund look to continue building out the real assets portfolio, with a particular focus on investment opportunities within infrastructure. This would serve not only to increase the portion of Fund assets' with direct inflation exposure, helping to address the other significant risk facing the Fund, but could also be selected to further demonstrate the Fund's commitment to ESG.
- We believe the Fund should look to agree a suitable way to exit the UBS Balanced Property mandate, with a view to recycling the proceeds into other opportunities within the UK Property and infrastructure markets.

Page 238

Next Steps

- The Council should consider its views on:
 - the proposals put forward for the equity, diversified alternatives and real assets portfolios.
 - the alternative investment strategy proposed, and whether there is appetite to explore this further, or if further information is required.
 - addressing the strategically underweight allocations to Direct Lending and Long Lease Property.
- Whilst secondary to the decision on the strategic asset allocation, the Fund will also have to consider the existing investment manager line-up, and whether any streamlining of this might be desired.
- We look forward to discussing this report with the Committee.

Appendices

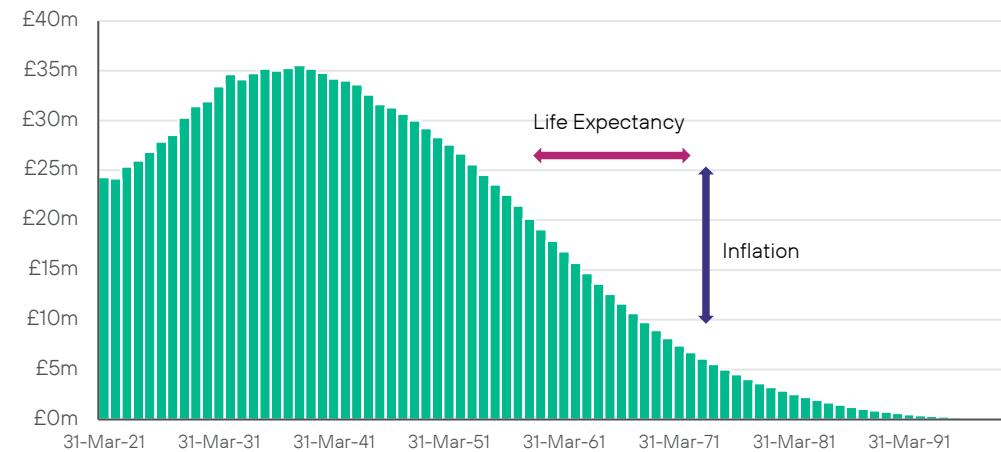
A1: Cashflow Profile

Overview

- The Fund is expected to have a number of cash outflows over the coming years. There are three core capital outflows:
 - Monthly pension payroll (which is fairly predictable);
 - Lump sum / death grant member payments (there is a degree of uncertainty over such benefits as they are more variable in nature);
 - Expenses such as manager fees, transaction costs and other miscellaneous charges.
- The Fund Actuary has shared details of the expected pension payments from the Fund. We note that these incorporate anticipated lump sum payments, but do not make any allowance for transfers out of the Fund – albeit we expect the magnitude of these to be negligible.
- The analysis in the table shows that the expected employer and employee contributions will partly offset the Fund's outgoings, though there is likely to be a shortfall each year. Any shortfall can be met using existing investment income.
- A number of the mandates within the current investment strategy generate a regular income stream which can be utilised by the Fund to largely offset the current expected shortfall. The Fund also has more than sufficient liquidity to deal with any deviations in these amounts.
- The existing diversified credit mandate with M&G also provides a regular income stream, however, at present this mandate is setup to reinvest these proceeds via the acquisition of additional units. Should the Fund wish to utilise this mandate to help offset any additional shortfall, the mandate could be switched so that the distributions are paid to the Fund Bank Account instead.
- We do not believe that there is a strong requirement to significantly increase the level of investment income within the strategy at this stage. However, there may be a greater focus on doing so at a later date.

Page 240

Liability Profile



Cashflows (£m)	Year 1	Year 2	Year 3	Year 4	Year 5
Income	£19.9m	£20.5m	£21.0m	£21.5m	£22.1m
Employer contributions	£15.0m	£15.4m	£15.8m	£16.2m	£16.6m
Employee contributions	£5.0m	£5.1m	£5.2m	£5.4m	£5.5m
Outgo	£24.3m	£24.2m	£25.4m	£26.0m	£26.8m
Pension Payments	£24.3m	£24.2m	£25.4m	£26.0m	£26.8m
Net Cashflow	(£4.4m)	(£3.7m)	(£4.4m)	(£4.4m)	(£4.7m)

A2: Equity Portfolio – Baillie Gifford Product Overview

	Baillie Gifford UK Alpha	Baillie Gifford Global Alpha	Baillie Gifford Global Alpha – Paris Aligned	Baillie Gifford Positive Change Fund
Stewardship Approach	N/A	N/A	Two stage exclusionary screening applied to the Global Alpha strategy to ensure the portfolio is aligned with the Paris Agreement.	Long-term active management to deliver dual objectives; attractive financial returns and positive change.
Launch date	April 1995	June 2009 ¹	May 2020	January 2017
Performance Objective	FTSE All-Share Index + 2% p.a.	MSCI ACWI + 2% p.a.	MSCI ACWI + 2% - 3% p.a.	MSCI ACWI + 2% p.a.
Holdings	30 – 40 stocks	c.100 stocks	94 stocks	25 – 50 stocks
Fees (% p.a.)	Tiered approach - 0.28% as at 31 December 2020	Tiered approach - 0.28% as at 31 December 2020	To be confirmed	To be confirmed
Tracking error target	N/A	N/A	4%-5%	N/A
ESG Considerations	None	None	Aims to have a weighted average carbon intensity lower than that of the MSCI ACWI Paris-Aligned benchmark.	Aims to deliver positive change by contributing towards a more sustainable and inclusive world.
Exclusions	None	None	Companies generating >10% revenues from the extraction of coal, oil and gas, companies that generate more than 50% revenues from services provided to coal, oil and gas extraction and production.	None

Source: Investment Managers.

Notes: ¹Launch date refers to the Fund's specific inception date. ²Top tier segregated fee.

A2: Equity Portfolio – Passive Manager Overview

	LGIM MSCI World Low Carbon Target Index	LGIM Future World Index Fund (Market Cap)	Future World Index Fund (Multi Factor)	BlackRock ACS World Low Carbon Equity Tracker Fund	BlackRock World ESG Equity Tracker Fund	BlackRock World Multifactor ESG Equity Tracker Fund
Regional Focus	Global	Global	Global	Global	Global	Global
Engagement/exclusion	Both: Exclusion – Pure Coal	Both: Exclusion – Pure coal, weapons, climate impact (plus UN Global compact violators for Market Cap)		Both: Exclusion – High carbon emissions	Both: Exclusion – Thermal coal, tobacco, weapons, UN Global compact violators	
Tracked Index	MSCI World Low Carbon Target Index	Solactive GBS Dev. Mkts Large and Mid Cap Index	FTSE AW ex CW Climate Balanced Factor Index	MSCI World Low Carbon Target	MSCI World ESG Focus Low Carbon Screened	MSCI World Select Multiple Factor ESG Low Carbon Target
ESG Objective	Minimise Carbon exposure subject to a tracking error of 0.3%	Maximise average ESG score subject to a tracking error of 0.5%	Maximise average ESG score subject to a tracking error of 0.5%	Minimise Carbon exposure subject to a tracking error of 0.3%	Maximise exposure to higher ESG scores subject to a tracking error of 0.5%	20% improvement in ESG scores than MSCI World Index
Number of stocks	1,300	1,545	2,331	1,278	489	401
AUM	£4.3bn	£654m	£4.9bn	£1.8bn	£762m	£215m

Source: Investment Managers.

A3: Alternatives: LGT Alternatives Proposal

Overview

- As part of ongoing discussions, LGT notified us towards the end of 2020 of a new alternatives product which they had launched in March 2020. Given our ongoing reservations over the current mandate, we have carried out an initial fact finding call with LGT to better understand the new strategy, and assess whether this would be a more appropriate solution for the Fund.

Summary

- LGT's new alternatives product, the LGT Multi-Alternatives Fund, has significant overlap with the Fund's existing mandate. However, there are a number of key differences, which we have looked to summarise below:
 - Target Return:** the new fund has a higher target return versus the Fund's existing mandate (7% - 9% (before LGT fee) vs LIBOR + 4% (net of fees)). LGT believe this increased target return is achievable due to the new fund's higher allocation to private equity, and reduced liquidity (allowing the manager to take advantage of the "illiquidity premium").
 - Underlying Liquidity:** the new fund offers reduced liquidity versus the existing mandate due to the introduction of gating provisions. These gating provisions restrict disinvestments at an overall fund level to 7.5% NAV per quarter, which could serve to further reduce the Fund's ability to disinvest from the fund (potentially up to 3 years)
 - Management and Performance Fees:** the standard management fee on the new fund is notably higher than Fund's existing mandate (1% vs 0.675%). These fees do not account for any additional fees due to third party managers as a result of the fund of fund structure employed by both products. LGT have confirmed that the underlying manager fees for the existing mandate, and new product are 1.09% and 0.9% respectively, as at 31 March 2021. In addition, the new product has a performance fee of 5% on all return generated above 3 month Libor which the exiting fund does not.
 - We have provided a comparison of the underlying asset allocations between the 2 funds on the following page.

Fund Characteristics

	LGT Crown Multi-Alternatives (Existing mandate)	LGT Multi-Alternatives
Target return	Libor plus 4% (net of fees)	7% - 9% (before LGT fee)
Expected Volatility	7% - 9%	6% - 8%
Investment Focus	Short-term tactical asset allocation	Long-term strategic allocations
Liquidity – subscriptions	Monthly, 10 days' notice	Monthly, notice by 19 th calendar day
Liquidity – redemptions	Quarterly, 99 days' notice	Quarterly, 99 days' notice up to 7.5% of fund NAV
Management fee (p.a.)	0.675%	1.0% ¹
Performance fee	None	5% performance fee (over hurdle of 3 month Libor)
GBP Share Class	Yes	No

Source: LGT

Notes: Information as at 31 January 2021. ¹Tiered fee structure in place. Management fee reflects SBC current mandate size.

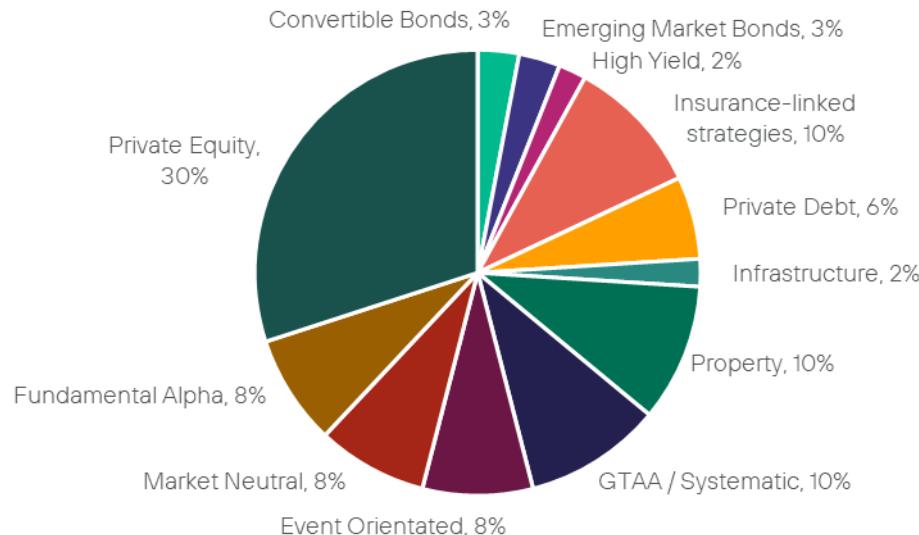
Isio View

- Whilst the new product launched by LGT has characteristics which we support e.g. increased exposure to illiquid asset classes (private debt, infrastructure, property etc.), the fund is expensive and continues to have significant overlap with the existing mandate.
- Having been launched in March 2020, the new fund is still building AUM, and does not yet have a GBP share class.
- We believe the new LGT Multi-Alternatives product is less suitable for the Fund than the existing mandate from a strategic point of view.

A3: Alternatives: LGT Alternatives Proposal

Page 244

LGT Crown Multi-Alternatives (Existing Mandate)



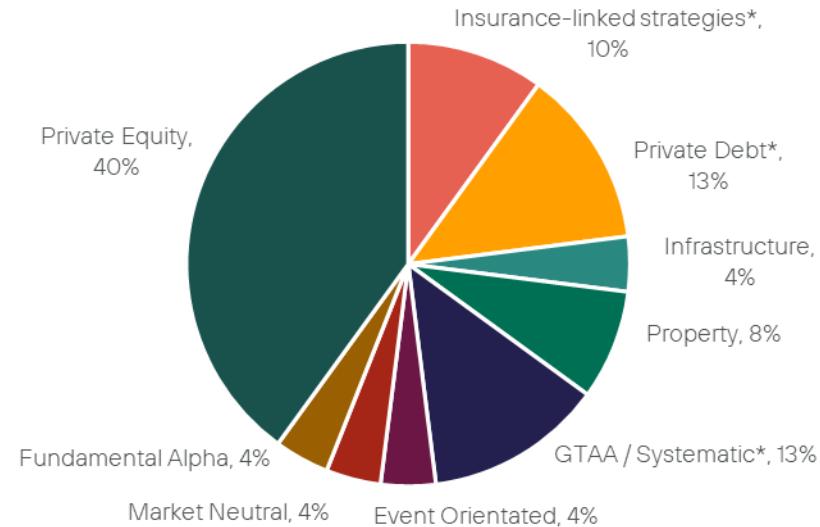
Source: LGT

Notes: Information as at 31 January 2021. * A portion of the strategies are managed internally.

Comments

- The two funds have significant overlap within their underlying holdings, despite their different return objectives.
- Unlike the Fund's existing mandate, the LGT Multi-Alternatives Fund does utilise internally managed strategies within its Insurance-linked strategies, private debt and GTAA/Systematic allocations. Whilst this will result in lower underlying manager fees (with no double charging), it is not sufficient to offset the higher standard management fee applied to the fund.
- The LGT Multi-Alternatives strategy has a lower allocation to hedge fund strategies (Fundamental Alpha, Market Neutral, Event Orientated, and GTAA / Systematic), which we are supportive of (25% vs 34%). Although, we would like to have seen this allocation reduced further, in line with other alternatives products which we rate within the market.
- We are supportive of the LGT Multi-Alternatives strategy's higher allocation to illiquid assets (property, infrastructure and private debt). However, we believe the Fund could gain exposure to these asset classes in a more cost effective and efficient manner directly.

LGT Multi-Alternatives



A4: Real Assets: UBS Property Proposal

Overview

- The mandate has been significantly simplified over the past 5 years, with the number of underlying allocations reduced materially. These changes have served to streamline the mandate, and reduce costs to the Fund.
- The change in investment guidelines required to facilitate the streamlining of the mandate have also served to restrict the activity which UBS is able to undertake, most notable the hard fund limit of 5. This has resulted in very limited ability for UBS to add value and the mandate operating under a "buy and hold" approach.
- As we continue to question the appropriateness of the mandate, and the fund of fund structure employed by UBS, we have had a call with the manager to understand what options are available to the Fund in order to unwind the portfolio.

Page Summary

- From discussions with UBS, we understand that there are 2 main options available to the Fund:
 - Sell down the Fund's units on the secondary market** – Altering UBS's mandate to sell positions where possible (where secondary market liquidity was available) and under set pricing guidance would result in c. 90% of the portfolio being returned over a period of 1 - 2 months with the rest thereafter. Although secondary market pricing is subject to change, UBS estimate that current market conditions are dictating a price 1-3% lower than redemption pricing for the positions they are able to liquidate. We do note that many market commentators (including UBS) expect market conditions and secondary pricing to improve in the coming months
 - Submit a formal redemption notice** – this would allow the Fund to achieve better pricing for its portfolio, but would significantly lengthen the time until the portfolio is unwound. UBS confirmed if this was the Fund's preferred option, they would be able to manage the process on behalf of the Fund.
- The trade-off between the two options relates to speed of disinvestment, and the pricing which would be achievable. The table opposite outlines the differences in expected pricing between the two options. Alternatively, the Fund could look to increase the scope of the investment guidelines with UBS to allow more flexibility in managing the mandate. However, this would largely result in the undoing of the activity previously carried out when the mandate was simplified.

Fund Overview and expected transaction costs

	Portfolio Weighting	Secondary Market Pricing (NAV)	Redemption Pricing (NAV)	Estimated Time to Exit – formal redemption
Hermes Property Unit Trust	20%	-1.5%	-1.2%	3 months + up to 9 months deferral
Lothbury Property Trust	26%	-4%	-1.7%	3 months + up to 12 months deferral
Patrizia Hanover Property Unit Trust	13%	Currently no buyers	-1.6%	6 months + up to 9 months deferral
Threadneedle Property Unit Trust	18%	-4%	-1.2%	4 months + no deferral limit
Nuveen Real Estate UK Retail Warehouse Fund	3%	-40%	Closed-ended	Up to 4 years
Unite UK Student Accommodation Fund	20%	-3%	-2%	6 months + no deferral limit

Source: UBS

Notes: Portfolio weighting as at 31 December 2020, excludes small cash balance. Secondary market pricing and redemption pricing based on market conditions at the time of writing.

Isio View

- The Fund has limited options available in order to restructure the mandate, without reversing changes to the investment guidelines previously put in place to simplify the portfolio.
- We believe you should begin the process to exit the UBS position, however, the Fund should consider which of the two options would be most appropriate, noting the trade-off between speed of disinvestment and available pricing.

A5: Return and Volatility Assumptions (1)

Introduction to the Assumptions

- These are our “best estimate” asset class return, volatility and correlation assumptions. We believe there is a 50:50 chance that the actual outcome will be above/below our assumptions.
- The assumptions are long-term, for a 10-year period, expressed in Sterling terms.
- Return assumptions are:
 - Annualised (i.e. geometric averages), rounded to the nearest 0.1%.
 - Expressed relative to the yield on fixed interest gilts (the annual yield at the 10-year tenor on the Bank of England spot curve). This yield was 0.2% at 31 December 2020.
 - Net of management fees.
 - Before tax. UK pension schemes are exempt from tax on investments. The impact of taxation may reduce returns for other investors.
- Volatility assumptions are based on the standard deviation of annual returns over a 10-year period, rounded to the nearest 0.5%.
- Bond volatilities are sensitive to the duration of the index. Our Fixed Interest Gilts (FIG) and Index-Linked Gilts (ILG) assumptions both relate to Over 15 Year indices, but the cashflow profile of the ILG index is considerably longer than the FIG index. Hence the difference in volatilities does not necessarily mean that real yields are assumed to be more volatile than fixed yields.
- Correlation assumptions are based on the correlation of annual returns over a 10-year period, rounded to the nearest 5%.

Page 246

Limitations and Risk Warnings

- There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions.
- The assumption setting process is subjective and based on qualitative assessments rather than a wholly quantitative process. Newer asset classes can be harder to calibrate due to the lack of a long-term history. Some asset classes may rely on active management to help deliver the assumed return. The returns on illiquid assets may vary by vintage; in these cases the quoted return expectation is necessarily an estimate encompassing multiple vintages.
- Where these assumptions are used within asset-liability modelling, please note that the model's projections are sensitive to the econometric assumptions. Changes to the assumptions can have a material impact upon the modelling output

A5: Return and Volatility Assumptions (2)

Asset Class	Sector ¹	Return ²	Volatility ³
Equity	Developed Markets – Passive	4.0%	20.0%
	Developed Markets – Core Active	4.5%	20.5%
	Global Unconstrained	5.0%	21.0%
	Developed – SmallCap Passive	4.6%	24.0%
	Emerging Markets – Passive	5.0%	28.0%
Property	UK Balanced Property	2.3%	13.0%
	Long Lease Property	2.5%	8.0%
	Private Rented Sector	3.0%	13.0%
	Global Property Secondaries	6.0%	30.0%
Hedge Funds	Multi-Strategy Fund of Funds	2.5%	10.0%
	Global Macro	3.0%	13.0%
DGF	DGF (lower risk) ⁵	2.8%	10.0%
	DGF (higher risk) ⁵	3.5%	12.5%
Alternatives	Private Equity	6.5%	30.0%
	Diversified Alternatives	6.0%	22.0%
	Infrastructure Equity	4.6%	12.0%

Asset Class	Sector ¹	Return ²	Volatility ³
Credit ⁴	Corp. Bonds (IG All-Stk) – Passive	0.6%	6.5%
	Corp. Bonds (IG All-Stk) – Active	0.9%	6.5%
	Corp. Bonds (IG >15y) – Passive	0.5%	8.5%
	Corp. Bonds (IG >15y) – Active	0.8%	8.5%
	Absolute Return Bonds	1.5%	4.0%
	CLO	2.5%	9.0%
	Direct Lending	4.2%	10.0%
	Distressed Debt	7.0%	16.0%
	Diversified Credit	2.5%	11.0%
	Infrastructure Debt – Senior	2.0%	6.0%
Gilts	Infrastructure Debt – Junior	3.3%	9.5%
	Multi-Asset Credit (lower risk)	2.6%	6.5%
Cash	Real Estate Debt – Senior	1.8%	6.0%
	Real Estate Debt – Junior	5.0%	14.0%
	Semi-Liquid Credit	3.7%	9.0%
Gilt	Fixed Int. Gilts (>15y) – Passive	0.0%	7.0%
	Index-Linked Gilts (>15y) – Passive	0.0%	11.5%
Cash	Cash	0.0%	1.0%

Notes:

Please refer to full explanations and caveats on previous pages.

¹ Includes active management except where specified as passive.

² Expected return per annum, net of fees, relative to the yield on fixed-interest gilts.

³ Expected standard deviation of absolute annual returns.

⁴ Includes allowances for downgrades and defaults.

⁵ "Lower risk" and "higher risk" are relative descriptions within the asset category only, with no wider meaning.

Source: Isio

A6: Modelling Methodology (1)

Data and Sources

- Information on characteristics of the Fund's liability profile, including the split between membership types, was taken from information provided by Hymans Robertson in relation to the 31 March 2020 actuarial valuation initial results.

Modelling Principles

- SOFIA is a stochastic model that simulates a large number of possible future economic outcomes, in which financial conditions develop in a number of different ways, defined by assumptions for average outcomes, range of variability, and inter-dependency between different markets.
The high-level market scenarios are generated by a third-party Economic Scenario Generator (ESG) provided by Moody's Analytics. The ESG is an industry-standard tool that is widely used by financial institutions (e.g. insurers, asset managers, and investment banks).
- Based on the scenarios generated by the ESG, SOFIA simulates asset-class returns calibrated to Isio's asset-class assumptions.
- SOFIA takes the initial starting position of the assets and the liabilities, and projects these values forward under the simulated scenarios, taking into account any relevant inflows and outflows.
- Different investment strategies are modelled in order to illustrate the effects of different allocations. In each case, SOFIA assumes that the strategy remains constant over the full projection period. Assets are annually rebalanced back to the original allocations.

Page 248

Modelling Results

- The results of the projections are shown by ranking the calculated results from best to worst in each year, and presenting the following outcomes:
- Median: this is the middle outcome and can be thought of as the "expected result". Half of the modelled outcomes are better than this and half are worse.
- Bad: this splits the results so that there is a one in five (20%) chance of having a worse outcome. This is a measure of risk.
- Very Bad: this splits the results at a one in twenty (5%) chance of having a worse result. This is a more extreme measure of downside risk.
- Good and Very Good (where shown): these illustrate possible positive outcomes at the 20% and 5% levels respectively.
- The "Value at Risk", where shown, is defined as the difference between the Median outcome and the Very Bad outcome, i.e. it represents the variability of funding outcomes and shows the magnitude of the possible downside from the expected result. Please note that this is not the same as the possible downside loss from the starting position.

A6: Modelling Methodology (2)

Compliance Statement

- This report, and the work relating to it, complies with "Technical Actuarial Standard 100: Principles for Technical Actuarial Work" ("TAS 100").
- This report has been prepared for the purpose of assisting the addressee in their review of the investment strategy. If you intend to use it for any other purpose or make any other decisions after considering this report, please inform Isio and we will consider what further information or work is needed to assist you in making those decisions.

Material Assumptions

Isio's central asset-class assumptions are assessed and revised at each calendar quarter-end. The assumptions used within this modelling exercise are set out in the Appendix.

Certain assumptions are sourced directly from the Moody's Analytics ESG and available market data, or set via adjustments to these sources. Where required or deemed to be more appropriate, assumptions are entirely determined by Isio. The assumption setting process is subjective and based on qualitative assessments rather than a wholly quantitative process. Where judgement is required, input is received from Isio's internal asset-class research teams.

Page 249

Limitations and Risk Warnings

- The only risk factors considered in our modelling are those that affect the values of pension schemes' assets and the financial assumptions used to value schemes' liabilities. Some of the risks that are not reflected include demographic risks (e.g. uncertainty of life expectancy), future changes to members' benefits, and legislative risks. The modelling results should therefore be viewed alongside those risks, as well as other qualitative considerations including portfolio complexity, governance burden, and liquidity risk.
- The model's projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output. There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions. Newer asset classes can be harder to calibrate due to the lack of a long-term history.
- The modelling analysis is based on portfolios containing a range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- Portfolios that make use of derivatives are exposed to additional forms of risk and can experience losses greater than the amount of invested capital.
- No guarantee can be offered that actual outcomes will fall within the range of simulated results. Actual outcomes may be better than the simulated 95th percentile or worse than the simulated 5th percentile.

A6: Modelling Methodology (3)

Liability Basis

- Where the model illustrates a scheme-specific funding basis (e.g. Technical Provisions), the funding basis is calculated in the same way across all the investment portfolios modelled. We therefore focus on the effect of investment strategies on asset values and hence surplus/deficits, without the distorting effect of differing discount rates. However, in cases where the discount rate allows for a risk premium, the magnitude of the risk premium may depend on the proportion of return-generating assets in the portfolio, and therefore in practice the funding basis may be different under different investment strategies.

- In addition to the deficit contributions, the model also calculates contributions required to fund future service accrual, if there are active members accruing additional pension entitlements. In this case a small amount of variability arises from the range of possible future inflation projections. Therefore the "fixed contribution" projections may still show minor differences in contributions between, for example, Median and Bad outcomes.

Contribution Basis

The model's projections may be based on either fixed or variable contributions:

- "Fixed contributions" means that the current schedule of deficit contributions is assumed to remain in place for the full projection period. The purpose of this is to illustrate pure investment risk, showing the effect of differing investment strategies without the distorting impact of different amounts of money being contributed. In practice, however, the long-term downside outcomes would be less likely to be reached, as poor intermediate outcomes would lead to a requirement for additional contributions after future valuations.
- "Variable contributions" means that the model simulates future actuarial valuations every three years, and calculates the future deficit contributions that might be required under the particular situations being projected. This illustrates the range of possible future contribution requirements.

A7: Disclaimers

- This report has been prepared for the sole benefit of the Scottish Borders Council, as administering authority of the Scottish Borders Council Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group/ Isio Services Ltd's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group/ Isio Services Ltd accepts no responsibility or liability to that party in connection with the Services.
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- In the United Kingdom, this Report is intended solely for distribution to Professional Clients as defined by the Financial Conduct Authority's Conduct of Business Sourcebook.

Page 251

This report has not therefore been approved as a financial promotion under Section 21 of the Financial Services and Markets Act 2000 by an authorized person.

Isio Service Limited is authorised and regulated by the Financial Conduct Authority FRN 922376.

- The output from our modelling is based on a large number of underlying assumptions. Changes to these assumptions can have a material impact on the results of the modelling.
- The outcomes shown above are not intended to be the best possible, or worst possible outcomes. The actual outcome could be worse than the 5th percentile, or better than the 95th percentile.
- The modelling analysis is based on portfolios containing a wide range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- The only risk factors we have considered in our modelling are those that affect the values of pension schemes' assets and the financial assumptions used to value schemes' liabilities. Some of the risks we have not considered include demographic risks such as the life expectancy of pension schemes' members and future changes to members' benefits.

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