

# Public Document Pack



## PENSION FUND COMMITTEE AND PENSION BOARD TUESDAY, 14 DECEMBER 2021

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA  
MICROSOFT TEAMS on TUESDAY, 14 DECEMBER 2021 at 10.00 AM

J. J. WILKINSON,  
Clerk to the Council,

7 December 2021

<b>BUSINESS</b>		
1.	<b>Apologies for Absence</b>	
2.	<b>Order of Business</b>	
3.	<b>Declarations of Interest</b>	
4.	<b>Minute</b> (Pages 3 - 4)  Minute of Meeting held on 20 October to be noted and signed by the Chairman. (Copy attached.)	2 mins
5.	<b>Committee Minute Recommendation</b> (Pages 5 - 6)  Consider the recommendation made by the Audit & Scrutiny Committee at the meeting held on 21 October 2021 relating to the recommendations detailed in the management action plan. (Copy attached.)	5 mins
6.	<b>Risk Register Update</b> (Pages 7 - 14)  Consider report by Director Finance & Corporate Governance. (Copy attached.)	5 mins
7.	<b>Pension Administration Strategy</b> (Pages 15 - 36)  Consider report by Director People Performance & Change. (Copy attached.)	10 mins
8.	<b>Business Plan Performance Update</b> (Pages 37 - 48)  Consider report by Director Finance & Corporate Governance. (Copy attached.)	10 mins
9.	<b>Pension Fund Budget Monitoring to 30 Sept 2021</b> (Pages 49 - 54)  Consider report by Director Finance & Corporate Governance. (Copy attached.)	10 mins

10.	<b>Responsible Investment Monitoring</b> (Pages 55 - 64)  Consider report by Director Finance & Corporate Governance. (Copy attached.)	10 mins
11.	<b>Information update</b> (Pages 65 - 78)  Consider Briefing Paper by Director Finance & Corporate Governance. (Copy attached.)	10 mins
12.	<b>Strategic Asset Allocation Implementation</b> (Pages 79 - 86)  Consider report by Director Finance & Corporate Governance. (Copy attached.)	15 mins
13.	<b>Any Other Items Previously Circulated</b>	
14.	<b>Any Other Items which the Chairman Decides are Urgent</b>	
15.	<b>Items Likely To Be Taken In Private</b>  Before proceeding with the private business, the following motion should be approved:-  “That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.”	
16.	<b>Investment Performance Quarter to 30 September 2021</b> (Pages 87 - 126)  Consider report by Isio Investment Advisory. (Copy attached.)	30 mins
17.	<b>Infrastructure Mandate Procurement</b> (Pages 127 - 134)  Consider report by Director Finance & Corporate Governance. (Copy attached.)	10 mins

## NOTES

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

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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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Please direct any enquiries to Declan Hall Tel: 01835 826556  
Email: Declan.Hall@scotborders.gov.uk

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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 Wednesday, 20  
October 2021 at 9.00 a.m.

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Present:- Councillors D. Parker (Chairman), S. Aitchison, J. Brown, G. Edgar, D. Moffat,  
S. Mountford, S. Scott; Mr. A. Daye, Mr D. Bell, Mr M. Drysdale, Mr M.  
Everett, Ms L. Ross  
Absent:- Councillor C Hamilton  
In Attendance: Director Finance and Corporate Governance, Pensions and Investment  
Manager, HR Shared Services Manager, Chief Officer Audit & Risk,  
Democratic Services Team Leader, Democratic Services Officer (W.  
Mohieddeen)  
Also in Attendance: Ms G. Woodman (Audit Scotland), Mr A. Haseeb (Audit Scotland), Ms A.  
Fitzpatrick (Audit Scotland)

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1. **MINUTE**

There had been circulated copies of the Minute of the meeting held on 16 September 2021.

**DECISION**

**APPROVED the minute for signature by the Chairman**

2. **EXTERNAL AUDIT REPORT**

There had been circulated copies of the report by Audit Scotland, the Council's external auditors. The report explained that Audit Scotland's work on the 2020-21 annual report and accounts had been substantially completed and were able to express an opinion as to whether the financial statements gave a fair and true view in accordance with the financial reporting framework and as to other opinions on the management commentary, annual governance statement and governance compliance statement. Ms Woolman, Audit Scotland was in attendance and presented the report. Ms Woolman confirmed that the audit was conducted in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland and it was anticipated that an unqualified audit opinion would be issued. Ms Woolman assured the Committee that through interaction with officers and members any instances of actual, suspected or alleged fraud would have been drawn to their attention and outstanding matters referenced in the paper had been received and did not affect the conclusion of the report. It was noted that fund membership levels were increasing but the ratio of active members to pensioners was reducing. The report noted that that Audit Scotland regarded the Fund as having conducted business in an open and transparent manner. Ms Woolman noted the Fund actively considered Environmental, Social and Governance matters as part of its Investment Strategy and that a positive approach in those matters may have a positive impact on the financial performance of investments.

## **DECISION**

**APPROVED the report to be put forward to a meeting of the Scottish Borders Council.**

### **3. FINAL ANNUAL ACCOUNTS**

There had been circulated copies of a report by the Director Finance and Corporate Governance presenting the final Annual Report and Accounts for the Pension Fund 2019-20 prior to their submission to Scottish Borders Council for signature. The final Report and Accounts, contained in Appendix 1 to the report, fully met these requirements. Audit Scotland had completed their audit and had provided an unqualified independent audit opinion. The Scottish Borders Council's Pension Fund Annual Audit Report highlighted two new recommendations and five recommendations from previous audits and action plans had been agreed for each of the recommendations. In response to a question about disparity between payments and income into the Fund, Mr Robertson noted that the Fund had consistently produced a positive return above the requirement of a 3.8% per annum return on investments. Fund performance was monitored and the Council had available options should performance reduce.

## **DECISION**

**AGREED the Pension Fund Annual Report and Accounts 2019-20 for Officer signature and Council Approval.**

### **4. 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 detailed in the Appendix to this Minute on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 6 and 6 of Part I of Schedule 7A to the Act.**

### **5. MINUTE**

The Committee considered the Private Minute of the Meeting held on 16 September 2021.

*The meeting concluded at 9.35 am.*

**Extract from Minute of Meeting of Audit and Scrutiny Committee – 21 October 2021**

**3 AUDITED REPORT AND ACCOUNTS 2020/21 FOR SCOTTISH BORDERS COUNCIL PENSION FUND**

There had been circulated copies of a report by Director Finance & Corporate Governance on the final Annual Report and Accounts for the Pension Fund for 2020/21. The report provided the Audit and Scrutiny Committee with an opportunity to scrutinise the final Account Report and Accounts for the Pension Fund for 2020/21 prior to their submission to Scottish Borders Council for signature. Mr Robertson advised of a typographical error in the report, where reference was made to accounts for 2019/20 in error, the report should have referred to 2020/21. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, contained in Appendix 1 to the report. Audit Scotland had now completed their audit and had given an unqualified audit opinion. They had identified two new recommendations and five recommendations from previous audits requiring action and these had been accepted by Management and would be enacted within the agreed timescales. The Annual Report had also been presented to members of the Pension Fund Committee and Pension Board for approval prior to Scottish Borders Council for signature.

**DECISION**

- # (a) **AGREED to recommend to the Pensions Fund Committee that it sought reassurance that by 31 March 2022 the recommendations detailed in the management action plan would be achieved; and**
- (b) **NOTED the Scottish Borders Council Pension Fund Annual Report and Accounts for 2020/21.**

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## **RISK REGISTER UPDATE**

**Report by Director Finance & Corporate Governance**

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

**14 December 2021**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **This report forms part of the risk review requirements of the pension Fund. It provides the Members of the Pension Fund Committee and Pension Board with an update of the progress of the actions taken by Management to mitigate the risks previously identified, a review of any new risks and highlights changes to any of the risks contained in the Risk Register.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A virtual risk workshop was held on 23 April 2021 with Officers from relevant Departments to review and update the full risk register. The revised Risk Register was approved by the Joint Pension Fund Committee and Pension Fund Board on 10 June 2021 and an update on the actions was presented on 16 September 2021.
- 1.4 Appendix 1 details the risks within the approved risk register which have been identified management actions and the progress of these actions to date.
- 1.5 There were no new risks identified during the review.

#### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Committee and Board:**
  - (a) **Note the management actions progress as contained in Appendix 1;**
  - (b) **Notes no new quantifiable risks have been identified since the last review; and**
  - (c) **Agrees to an update on progress of management actions to be presented in March 2022.**

### 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, was approved on 10 June 2021, setting out the aims and objectives of the Pension Fund. These aims and objectives 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
<b>RED</b>	High – Risk Score Range 15-25
<b>AMBER</b>	Medium – Risk Score Range 6 – 12
<b>GREEN</b>	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"><li>Quarterly Investment Performance Report;</li><li>Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;</li><li>Update on progress of risk management action delivery.</li></ul>   |
| Bi-Annually | <ul style="list-style-type: none"><li>Mid-Year Progress report on Business Plan Actions;</li><li>Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;</li><li>Update on progress of risk management action delivery.</li></ul>   |
| Annually    | <ul style="list-style-type: none"><li>Annual Governance Meeting with Annual Report and Policy/Strategy Performance Reports;</li><li>Annual reporting on progress with Business Plan and approval of updated Business Plan;</li><li>Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks.</li></ul> |

## **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 updated full risk register was approved by the Pension Fund Committee on 10 June 2021 and an update on the actions was presented on 16 September 2021.
- 4.2 The progress of the individual management actions identified in the current risk register is detailed in Appendix 1.
- 4.3 There were no new risks identified during the review.

## **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 Sustainable Development Goals**

There are no direct impacts from this report on the sustainable development goals of the Council.

### **5.5 Climate Change**

There are no direct climate change 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 Data Protection Impact Statement**

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

### **5.8 Changes to Scheme of Administration or Scheme of Delegation**

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

## 6 CONSULTATION

- 6.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), 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**

**Director -p Finance & Corporate Governance    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 16  
September 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.

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

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 14/12/21
1.4	Asset & Investment	Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels	Committee ignores advice provided by expert adviser. External adviser provides inappropriate/inaccurate/ insufficient advice to Committee/Officers.	Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates.	Ongoing	Pension Fund Committee/Executive Dir Finance & Regulatory	Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role  <b>TREAT</b> Ongoing training for elected members of the Pension Board and Committee	Effective	4	2	8	Training plan for 2021/22 approved 10/6/21 based on skills and knowledge assessment. 3 Training events held to date
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/Executive Dir Finance & Regulatory	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. The valuation will trigger assessment of the Investment strategy.  <b>TREAT</b> - Undertake a full investment strategy review	Effective	2	2	4	Valuation completed and approved March 21. Review of investment strategy approved 10/6/21. Implementation of strategy underway.
1.12	Asset & Investment	Increasing effect of climate change on global economy	Changing consumer demand patterns	Changing consumer demand patterns results in obsolescence, impairment or stranding of assets. Resulting in reduced investment returns.	Ongoing	Pension Fund Committee/Executive Dir Finance & Regulatory	Responsible Investment Policy in place and monitored. Only invest with Fund Managers who have strong ESG credentials.  <b>TREAT</b> Review Responsible Investment Policy to set clearer Climate Change Strategy	Partially Effective	3	3	9	Workshop held on 23/8/21 to review and develop Responsible Investment Policy. Revised Policy approved at Committee 16/9/21
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/Executive Dir Finance & Regulatory	Full actuarial valuation undertaken on Triennial basis, 2020 valuation commenced; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA, CGI & SOSE to reflect employer situations; Annual declaration made by each Employer for forthcoming changes Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed.  <b>TREAT</b> Monitoring of implementation of 2020 valuation rates	Effective	2	2	4	Valuation results approved march 21. Employers notified of rates. Returns from Employers being monitored monthly

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 14/12/21
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	<p>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</p> <p><b>TREAT</b>- Undertake review of admission agreements</p>	Effective	3	2	6	Pending access to the office in order to obtain copies of paper files
2.5	Employer	Loss of income for employer resulting in inability to fund contributions	Global pandemic resulting in closure of facilities Loss of income due to global economy crash	Failure of employer to pay contributions loss of cash flow to pay pensioners	ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	<p>Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year.</p> <p><b>TREAT</b>; undertake review of admission agreements and guarantees</p>	Partial Effective	2	5	10	Pending access to the office in order to obtain copies of paper files
3.2	Resources & skills	Failure to provide appropriate training and support and/or secure Board/Committee Member engagement in Training Programme may lead to ineffective management of the Fund as a result of poorly informed decision making.	Availability of members to attend training; Inappropriate training programme.	Ineffective management of the Fund as a result of poorly informed decision making.	Ongoing	Pension Fund Committee/Exec Dir Finance & Regulatory	<p>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</p> <p><b>TREAT</b> - annual monitoring and reporting undertaken</p>	Effective	3	3	9	Training plan for 2021/22 approved 10/6/21 based on skills and knowledge assessment. 3 Training events held to date
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	<p>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.</p> <p><b>TREAT</b> - Improvement in quality of procedure notes for officers. Annual review of Competency Framework for all staff</p>	Partially Effective	2	3	6	Continual review of processes and procedural notes to ensure they are compliant with regulations and system requirements (Altair and Business World). Competency Framework implemented for all staff along with new appraisal process

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 14/12/21
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	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  <b>TREAT</b> - Review and watch to be placed on advice and guidance issued from The Pension Regulator and Government.	Effective	2	2	4	Continue to monitor advice and information from The Pension Regulator and Government bodies.
5.3	Administrative	Failure to provide pensions administration service due to major operational disruption could lead to inability to provide a high quality pension service to members	Loss of main office; Computer system; Staff absence.	Ability to process payments on time; Financial distress to members; Reputational risk.	Ongoing	HR Shared Services Manager	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. Pensions Administration System is hosted system, along with Windows 10 provides improved ability for homeworking;  <b>TREAT</b> - in line with core HR risk review full business continuity review to be undertaken.	Effective	2	3	6	Work to commence on business continuity review with Altair a fully hosted solution
5.4	Administrative	Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds.	Lack of monitoring; Lack of segregation of duties.	Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members.	Ongoing	HR Shared Services Manager	Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk.  <b>TREAT</b> - to request from each External Employers audited accounts to provide assurance on their internal controls	Effective	2	2	4	To be incorporated into the 21-22 year end sign off, wording agreed for inclusion
6.1	Regulatory & Compliance	Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation	Changes to legislation; Lack of staff training; Lack of knowledge and skills	Wrong pension payments made or estimates given; Breach of regulations; Prosecution.	Ongoing	HR Shared Services Manager/ Pension & Investments Manager	Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates; External Audit review extends beyond financial controls; Pension Board review of decisions; Appraisal process implemented to identify training and development requirements.  <b>TREAT</b> - Annual review of Competency Framework to all staff	Effective	2	2	4	Competency Framework implemented for all staff along with new appraisal process. Annual review meetings taking place

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 14/12/21
6.2	Regulatory & Compliance	Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	Central Govt. legislation changes. Government Actuary Department review and subsequent regulatory changes	Loss of independence in the management of the Fund; Impact on Fund value and benefits; Increased costs to the Fund, employer contributions; Potential loss of active scheme members.	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board; <b>TREAT</b> Seek to input into any of the legislative change through active membership of COSLA;	Partially Effective	4	4	16	Responding to all consultations and participating in all national groups. Executive Director Finance & Regulatory active member of Director of Finance group. Monitoring Scheme Advisory Board web site on monthly basis
6.3	Regulatory & Compliance	Failure to produce accounts, notices and publications correctly or on time resulting in inability to manage the fund effectively and compliantly.	Lack of capacity; Conflicting operational demands, including Transformational activity.	Accounts qualified by External Auditors; Referral to Pensions Regulator or Scheme Advisory Board	Ongoing	Exec Dir Finance & Regulatory	Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via Appraisal and attendance at appropriate training events. <b>TREAT</b> - Annual review of Competency Framework to all staff	Effective	2	2	4	Competency Framework implemented for all staff along with new appraisal process. Annual review meetings taking place
6.5	Regulatory & Compliance	Changes in LGPS Structures	Review by Scheme Advisory Board on LGPS structures	Fund may cease to exist, assets may be pooled, Administration could be pooled	Ongoing	Exec Dir Finance & Regulatory	Monitoring of political position via Scheme Advisory Board <b>TREAT</b> - Actively engage with Scheme Advisory Board and consultants undertaking review	Partially Effective	3	4	12	Minutes of SAB tabled as meetings for information when available
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	Hosted environment for pension admin Monitored and regularly improved firewalls security installed on all hardware IT contractual requirements for all IT providers <b>TREAT</b> Continue engagement with IT providers, introduce annual assurance from providers of cyber security policy and adherence	Partially Effective	5	2	10	Cyber security report has been provided by Aquilla Heywood and Hymans Robertson with a request submitted via IT Business Partners for similar report from CGI
7.3	Reputation	Failure to appoint relevant advisers and review their performance may lead to inappropriate management of the Fund resulting from poor advice to decision makers	Lack of capacity of Officers to monitor.	Failure to achieve Pension Fund objectives; Inappropriate management of the Fund resulting from poor advice to decision makers; Legal challenge	Ongoing	Exec Dir Finance & Regulatory/ Service Dir HR & Comms	Identify requirements of external advisers and appoint appropriately. Annual review undertaken with Investment Advisor and Custodian. <b>TREAT</b> - Undertake annual review of Adviser;	Effective	2	2	4	Review meetings held with Northern Trust and Isio.
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	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 <b>TREAT</b> - ESG workshop to be held prior to reviewing Responsible Investment Policy	Partially Effective	2	2	4	Workshop held on 23/8/21 to review and develop Responsible Investment Policy. Revised Policy approved at Committee 16/9/21



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## **PENSION ADMINISTRATION STRATEGY**

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### **Report by Director People Performance & Change**

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

**14 December 2021**

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### **1 PURPOSE AND SUMMARY**

- 1.1 This report proposes the revised Pension Administration Strategy for the Scottish Borders Council Pension Fund.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme (Scotland) Regulations 2018 to have an up-to-date Pension Administration Strategy.
- 1.3 **Appendix 1** contains the revised Pension Administration Strategy which has a number of amendments made to the previously approved version, these are mainly in relation to the introduction of the Member Self Service portal and the targets that we have set. Other changes are in the departmental names and post titles for officers and an update to the list of Employers within the Fund.

### **2 RECOMMENDATIONS**

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

### **3 BACKGROUND**

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

### **4 PENSIONS ADMINISTRATION STRATEGY**

- 4.1 **Appendix 1** contains the updated Pensions Administration Strategy (PAS).
- 4.2 There have been changes made to the performance measures to recognise the implementation of the Member Self Service (MSS) portal, this will provide the Committee and Board with updates on the number of Fund members who have signed up along with the use of the system. As MSS becomes embedded we will look to add further measures. The final addition is to provide the Committee and Board with an assurance that the payment of ongoing monthly pensions are processed on time for the 15<sup>th</sup> of the month or earlier when the 15<sup>th</sup> falls on a non-banking day.
- 4.3 The changes made within the PAS are to reflect the recent changes to the corporate structure within SBC, changes to officer titles have also been reflected. The final change is the removal of Visit Scotland from the list of Employers following their transfer to Lothian Pension Fund earlier in the year. The updates were made in the following sections: -
- Section 3.1 – change to Departments to reflect the updated corporate structure
  - Section 3.2 – update to officer title
  - Section 3.3 – update to officer title and Department
  - Section 5.2 – the addition of Member Self Service as the method for issuing Annual Benefit Statements, the inclusion of processing ongoing monthly pension payments
  - Appendix A – removal of Visit Scotland from the list of Scheduled Bodies

### **5 IMPLICATIONS**

#### **5.1 Financial**

There are no financial implications to this report.

#### **5.2 Risk and Mitigations**

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

### 5.3 **Integrated Impact Assessment**

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

### 5.4 **Sustainable Development Goals**

There are no direct impacts from this report on the sustainable development goals of the Council.

### 5.5 **Climate Change**

There are no direct climate change 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 **Data Protection Impact Statement**

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

### 5.8 **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/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (Finance & Corporate Governance), the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

### **Approved by**

**Clair Hepburn**

**Director People Performance & Change Signature .....**

### **Author(s)**

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

### **Background Papers:**

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

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

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

# **SCOTTISH BORDERS COUNCIL PENSION FUND**

## **PENSION ADMINISTRATION STRATEGY**

**HR Shared Services  
Chief Executives Department  
Version 2020 1.9**

**Approved: Joint Pension Fund Committee and Pension Board [14 December 2021]  
(DRAFT)**

## 1. Introduction

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

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

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

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

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

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

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

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

## 2. Pension Administration Strategy Statement

2.1 The strategy statement has been produced in consultation with Employers and was approved by the Joint Pension Fund Committee and Pension Board on [14 December 2021]. The strategy will be kept under review and revised where appropriate. Changes will be

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

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

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

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

### 3. Administration and Management of the Fund

3.1 This is shared over two Services within the People, Performance & Change and Finance & Corporate Governance.

#### 3.2 Administration

The pension benefit policy oversight and day-to-day administration for the Fund is managed by the HR Shared Services Team within People, Performance & Change.

#### 3.3 Management

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

He is responsible for:

- the financial accounting of the Fund,
- the preparation of the Pension Fund Annual Report, and
- being the principal advisor on investment management to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

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

### 4. Roles and Responsibilities

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

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

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

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

## 5. Service Standards

### 5.1 Service standards expected from the Employer

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

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

### 5.2 Service standards Employers can expect from the Fund

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

- Where all required information is provided, the Fund will provide the Employer with ad-hoc estimates of benefits **within 10 working days** of the receipt of the request. Where more than 20 individual estimates are required, the Employer must consult with the Fund to reach an agreed timescale. Multiple requests relating to an individual member may be restricted.
- The Fund will respond to a pension-related query raised by the Employer **within 10 working days** of receipt.
- Benefit statements, leaflets and other correspondence will generally be issued directly to members' home addresses, where available. The Fund will advise Employers of the general content and planned issue date of such material in advance.
- The Fund will issue benefit statements through Member Self Service by **end of August** on an annual basis.
- The Fund will process ongoing monthly payments to pensioners by the 15<sup>th</sup> of the month or earlier when the 15<sup>th</sup> falls on a non-banking day.
- Employers have responsibility for ensuring the accurate provision of information to their members. The Fund is not responsible for checking the accuracy of any information provided by the Employer. However, the Fund will inform the Employer of any discrepancies between information provided by the Employer and information already held.
- As the body administering the scheme on behalf of the Employer, the Fund will consult with the Employer on major issues affecting their participation in the LGPS and keep it up to date with relevant information through:
  - ❖ Website – [www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)
  - ❖ Employer bulletins
  - ❖ Employer events
  - ❖ Consultative panel meetings
- The Fund will provide training, guidance and support to staff who have pension related duties as required by the Employer.

## 6. Performance measurement and reporting

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

- 6.3 The Fund will carry out its duties and responsibilities to members in accordance with its service standards. It will also monitor, measure and report on its performance against those standards and its performance targets.

## 7. Costs

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

## 8. Penalties

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

## Appendix A – Scheduled and Admitted Bodies

### Scheduled Bodies

- Borders College
- Scottish Borders Council

### Admitted Bodies

#### Active Admitted Bodies

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

#### Admitted bodies with Deferred or Retired Members only

- Berwickshire Housing Association
- Heriot Watt (former Scottish College of Textiles)
- Project '80 Council Burnfoot
- Red Cross Housing Association
- Scottish Borders Careers
- Stable Life (formerly GYP)
- Lothian and Borders Community Justice Authority
- SB Cares LLP
- SB Supports LLP

## Appendix B – The Role and Responsibilities of the Employer

## 1. Main duties under scheme regulations

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

## 2. Responsibilities

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

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

### 3. Discretions

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

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

## Appendix C – The Role and Responsibilities of the Fund

### 1. Main duties under scheme regulations

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

### 2. Responsibilities

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

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

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

### 3. Discretions

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

## Appendix D – Contact Details

### Fund Staff Contacts

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

Contact Number: 01835 825052

E-mail Address: [pensions@scotborders.gov.uk](mailto:pensions@scotborders.gov.uk)

### Employer Staff Contacts

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

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

#### Responsibility/Interest

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

#### Communications required:

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

## Appendix D1 – Employer Contacts Form

Employer:

Effective Date:

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

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

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

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

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

## Appendix E – Performance Measures

### EMPLOYER PERFORMANCE MEASURES

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

#### Service Standards

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

#### Contribution payments

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

ADMINISTERING AUTHORITY PERFORMANCE MEASURES

Service Standards

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

Other measures

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

Key Administration Tasks – latest period

Task	Total received	Target	% Completed in target
New entrants			
Early leavers			
Retirements			
Deaths in service			
Changes			
Estimates			
Pay all Pensioners on 15 <sup>th</sup> of the month or prior working day when 15 <sup>th</sup> is a non-banking day		100%	

Member Self Service Statistics – latest period

Task	Total Active	Target	% Completed in target
Active Members		100%	
Deferred Members		100%	
Benefit calculations run			

## VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2012 1.0	Creation of Pension Administration Strategy	27 April 2012	Ian Angus
2012 1.1	Changes following review by Anthea Green, Team Leader, HRSS	30 April 2012	Ian Angus
2012 1.2	Changes based on comments from David Robertson, Chief Financial Officer	1 May 2012	Ian Angus
2012 1.3	Changes based on comments from Lynn Mirley, Treasury & Capital Manager	10 May 2012	Ian Angus
2012 1.4	Changes based on comments from Ian Wilkie, Head of Legal & Democratic Services	31 May 2012	Ian Angus
2012 1.5	Changes following Pension Fund Sub-Committee 13 June 2012	5 July 2012	Ian Angus
2015 1.6	Amendments for 2014 regulations and Pension Board in place from 1 April 2015	23 July 2015	Ian Angus
2018 1.7	Amendments for 2018 regulations and name changes for Services	22 August 2018	Anthea Green
2020 1.8	Update Admitted Bodies, Regulations listed, Fund Website	2 September 2020	Ian Angus
2021 1.9	Update to Department names and inclusion of Member Self Service and Payroll payments	19 November 2021	Ian Angus

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

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

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## **BUSINESS PLAN PERFORMANCE UPDATE**

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### **Report by Director Finance & Corporate Governance**

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

**14 December 2021**

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### **1 PURPOSE AND SUMMARY**

- 1.1 This report is to provide members of the Committee and the Board with an update on delivery of the actions within the approved Business Plan.**
- 1.2 The 2021/22 – 2023/24 Business Plan for the Pension Fund was approved by the Committee/Board on 10 June 2021. Included within the plan were key objectives and actions with target dates. A summary of the progress on the actions are included in Appendix 1.
- 1.3 As part of the risk register update approved at Committee/Board on 16 September 2021 it was agreed that a mid-year progress report on the business plan actions would be presented to Members at the December 2021 meeting and a further progress report and update at the June 2022 meeting.
- 1.4 There are 30 key tasks due for completion during 2021/22. Of these 16 are fully complete, 12 are on track to be completed by the approved target date and 2 require revised target dates as detailed below.

### **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Pension Fund Committee:**
  - (a) Notes the progress of the 2021/22 actions within the business plan;**
  - (b) Agrees the revised target date of 31 March 2022 for completion of the full reconciliation of Guaranteed Minimum Pension between the Fund and HMRC; and**
  - (c) Agrees the revised target date of 31 June 2022 for implementation of i-connect.**

### **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" and the reporting on compliance, as required by the LGPS Regulations, must be included in the Statement of Investment Principles.
- 3.2 Best practice indicates that having a business plan for the Pension Fund is a good way of demonstrating compliance with the "Myners Principle" that underpin effective decision making. The Pension Fund Committee and Board approved the 2021/22 – 2023/24 business plan on 10 June 2021.
- 3.3 As part of the risk register update approved by Committee/Board on 16 September 2021 it was agreed a progress report on the actions contained within the business plan would be reported to the Committee and Board at the December 2021 meeting

### **4 ACTION PLAN – PROGRESS UPDATE**

- 4.1 The action plan approved at the joint meeting on 10 June 2021 detailed how the achievement of the objectives within the business plan would be measured. Appendix 1 shows the actions to be completed in 2021/22 and provides an update on each individual action.
- 4.2 There are 30 key tasks due for completion during 2021/22. Of these 16 are fully complete, 12 are on track to be completed by the approved target date and 2 require revised target dates as detailed below.
- 4.3 Due to delays in the final validation of data by HMRC the full reconciliation of Guaranteed Minimum Pension, which was to be completed by 31 October 2021, will not be completed until 31 March 2022.
- 4.4 Due to resource pressures and work demands the implementation of – connect will not be completed by the agreed target of 31 December. Work has however commenced and will be complete by 30 June 2022.

### **5 IMPLICATIONS**

#### **5.1 Financial**

There are no financial implications to this report.

#### **5.2 Risk and Mitigations**

The monitoring of the delivery of actions within the Business Plan including identification of responsible officer and timescales, as set out in this report, is part of the governance framework to manage the operation of the Pension Fund and ensure effective decision making. Some of the actions 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 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council.

### 5.5 Climate Change

There are no direct climate change 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 Data Protection Impact Statement

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

### 5.8 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/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), 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**

**Director Finance & Corporate Governance Signature .....**

### Author(s)

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

**Background Papers:** Pension Fund Business Plan 2021/22 – 2023/24

**Previous Minute Reference:** Joint meeting Pension Fund Committee and Pension Fund Board, 10 June 2021.

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

Contact us at Pensions & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 PSA  
Tel: 01835 825249  
email: [t&cteam@scotborders .gov.uk](mailto:t&cteam@scotborders.gov.uk)

## APPENDIX 1

### 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	<b>Review Pension Strategies informed by 2020 Triennial Valuation Results</b>						
		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	<b>Maximise investment performance</b>						
		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		•		

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Progress
P1-A1	Fund Investment Performance at Benchmark	Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis	Quarterly reports provided, fund currently meeting performance returns
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	Will commence 2022
P1-C1	Correct employer contribution rates in Pensions System for each employer	By 30/06/2021	Complete
P1-C2	Pension Fund Committee approval of Funding Strategy Statement	By 30/06/2021	Approved 21 March 2021
P2 – A1	Undertake full review of strategic asset allocation	By 30/09/2021	Approved 21 June 2021
P2 – B1	Agree plan for implementation of approved strategic asset allocation	By 31/12/2021	Action plan agreed
P2 – B2	Action plan for strategic asset allocation implementation	By 31/12/2022	Commenced

## 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	<b>Develop and Implement an effective Communication Strategy for the Pension Fund</b>						
		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	<b>Ensure stability of Employers</b>						
		Review of Employer covenants	P4-A1 P4-A2	HRSS Manager	•	•		
P	5	<b>Ensure accuracy of Pension Records</b>						
		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	<b>Implementation of self service facility</b>						
		Implementation of Self Service facility	P6-A1	HRSS Manager	•	•		
P	7	<b>System improvements to support home working</b>						
		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	•	•		
			Continued promotion of availability for online payslip and P60's	P7-A4	HRSS Manager	•	•		

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Progress
P3- A1	Review of Communications strategy and action plan	30/09/2021	Revised strategy approved 16 Sept 2021
P3-A2	Hold Annual Employer Liaison Meeting	1 meetings by 31/03/2022	Annual Meeting will be scheduled early in 2022 and be held ahead of target date
P3-A3	Annual review of all forms, communication material, including annual benefit statements	31/08/2021	Annual Benefit Statement communications were reviewed for the deferred members, with all other now via MSS. Other forms continue to be reviewed with a view to digitising wherever possible
P4-A1	Review of admission agreement	31/03/2022	Copies to be obtained at next visit to office and then shared with Actuary to conduct review
P4-A2	Review of employer guarantees	31/03/2022	As above
P5-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	31/10/2021	There has been slippage in meeting the original target date, new date 31/03/2022
P5-A2	Review of Common and Specific Data following annual review and return to The Pension Regulator.	31/12/2021	Common Data completed and on target to review Scheme Specific

P5 – A3	Review all guidance and communication on McCloud case implications	31/02/2022	Ongoing
P5 – A4	Review all guidance and communication on Goodwin case implications	31/02/2022	Ongoing
P6-A1	Implementation and roll out of self service to all members	31/12/2021	Completed in time for Annual Benefit Statement issue, continuing to look at communicating the benefits and increase sign up rates
P7-A1	Implementation of workflow	31/12/2021	Training on workflow being delivered to the team 9 <sup>th</sup> & 10 <sup>th</sup> November 2021
P7-A2	Implementation if i-Connect	31/12/2021	Slippage due to competing priorities, new target date 30/06/2022
P7-A3	Digitisation of historical records	31/12/2022	Currently waiting on decision around corporate solution
P7-A4	Implementation of online payslips and P60's	31/03/2022	Ongoing promotion of Business World sign up

## 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	<b>Continue to develop robust governance and risk management</b>							
		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	<b>Review services provided by IT providers to ensure data is secure and adheres to cyber security requirements</b>							
		Implement annual assurance requirement for IT providers	P9-A1, A2 & A3	HRSS Manager	•	•	•	•

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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Progress
P8-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2020	30/06/2021	Approved 10 June 2021
P8-A2	Pension Fund Committee approval of Training Policy 2020 and Training Programme 2021/22	30/06/2021	Approved 10 June 2021
P8-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/2021	Being presented at December 2021 meeting

P8-A4	Training Needs Self-Assessment Levels from 2020/21 to 2021/22	30/06/2021	Approved 10 June 2021
P8-A5	Undertake ESG workshop	30/09/2021	Workshop held 23 Aug 2021
P8-A6	Review current and developing best practice for responsible investment	31/12/2021	Reviewed and updated policy approved 16 Sept 2021
P8-A7	Undertake review of Stewardship Code 2020 and recommendations for adherence	31/12/2020	Completed and findings reported 16 Sept 2021
P8-A8	Implement recommendation from Stewardship Code review	30/09/2021	Submission to FRC 29 Oct 2021
P9-A1	Request assurance of cyber security policy being in place from Aquila Heywood on an annual basis	30/09/2021	Presented at September meeting
P9-A2	Request assurance of cyber security policy being in place from CGI on an annual basis	30/09/2021	confirmation received
P9-A3	Request assurance of cyber security policy being in place from Hymans Robertson on an annual basis	30/09/2021	Presented at September meeting



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## **PENSION FUND BUDGET MONITORING TO 30 SEPT 2021**

**Report by Director Finance & Corporate Governance**

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### **JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD**

**14 December 2021**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 30 September 2021 including projections to 31 March 2022.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets the standards a budget was approved on 4 March 2021 following the recommendations within the CIPFA accounting guidelines headings. This report is the third quarterly monitoring report of the approved budgets.
- 1.4 The total expenditure to 30 Sept 2021 is £0.375m with a projected total expenditure of £7.147m against a budget of £7.129m. This projects a budget variance of £18k which represents procurement costs for a Residential Property investment manager.
- 1.5 A key objective of the Fund is to pay pension benefits as they become due. Due to the maturing nature of the fund and this requirement the Fund has included within its investment strategy the requirement for income generating assets. The graph in para 5.3 shows the Fund has been able to fully meet its cashflow requirements.

#### **2 RECOMMENDATIONS**

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

- (a) Notes the actual expenditure to 30 September 2021;**
- (b) Agrees the projected out-turn as the revised budget; and**
- (b) Notes the cashflow position.**

### 3 BACKGROUND

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

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

### 4 MONITORING TO 30 SEPT 2021

- 4.1 The table below shows the expenditure to 30 Sept 2021, projected out-turn to 31 March 2022 and current approved budget for 2021/22.

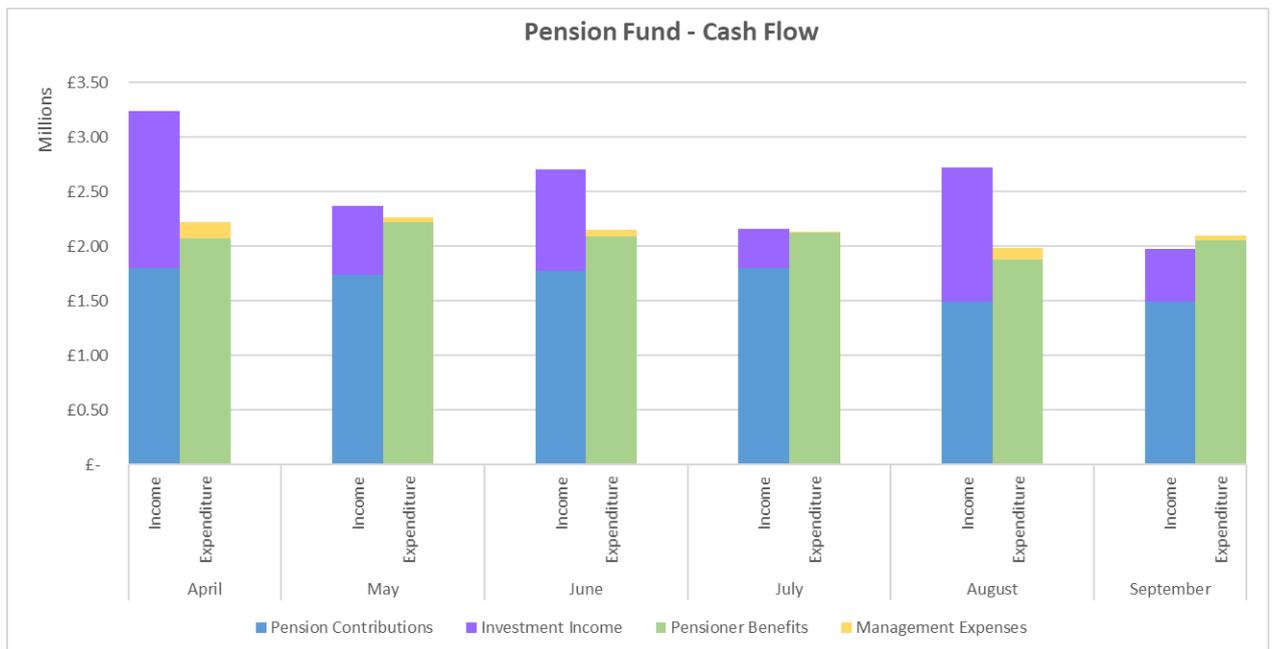
	Expenditure to 30 Sept 21 £000's	Projected to 31 March 22 £000's	2021/22 Budget £000's	2021/22 Variance £000's
Investment Management	192	6,420	6,420	-
Administration	100	381	381	-
Oversight & Governance	83	346	328	18
<b>Total</b>	<b>375</b>	<b>7,147</b>	<b>7,129</b>	<b>18</b>

- 4.2 Investment Management fees are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. The second quarters investment management fees are not therefore included in the expenditure to 30 September 2021 totals.

- 4.3 Work continues with managers to allow monitoring and reporting of all fees on a quarterly basis using the Cost Transparency Initiative (CTI) templates. This requirement has been included as a requirement in the Infrastructure procurement exercise. Managers have mostly been able to provide the information on an annual basis to allow use for the year end accounts but their systems currently do not allow for quarterly reporting. Officers are working with other LGPS Funds to increase pressure on managers to resolve these issues.
- 4.4 The additional £18k for oversight and governance is the procurement costs for the appointment of a Residential Property manager for the allocation approved on 10<sup>th</sup> June 2021 as part of the strategic asset allocation review. The work was original scheduled for April 2022 but due to good progress on the implementation of the revised asset allocation has been bought forward to Q1 2022.

## **5 CASHFLOW MONITORING**

- 5.1 A key objective of the Fund is to ensure the funds are in place to pay the members benefits. The Fund has been a mature fund since 2013/14 with the number of pensioners and their dependants exceeding contributing members. This in turn has resulted in the monthly cash out goings for pension benefits and expenses being higher than the contributions collected from active members.
- 5.2 To ensure the Fund continues to meet its primary objective the investment strategy approved by Committee incorporates an element of income generating assets to supplement member and employer contributions. These income generation assets are expected to enable the cash flow requirements of the Fund to be fully met without the requirement to disinvest from assets.
- 5.3 The table over details the cashflow movements for the previous six months. The graph reflects cash expenditure for pension benefits, investment manager fees and operational costs of the Fund. Income shown is the contributions received from employers and employee and investment income received as cash. The figures excluded any principle returned or invested.



5.4 The table demonstrates the investment strategy is providing the required levels of cash to ensure the Fund is able to fully meet its cashflow requirements. This will continue to be monitored and reported to the Joint Pension Fund Committee and Pension Fund Board on a quarterly basis.

## 6 IMPLICATIONS

### 6.1 Financial

There are no costs attached to any of the recommendations contained in this report.

### 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. Risks 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 a routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

#### 6.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council.

#### 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 proposals contained in 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

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

### 7 CONSULTATION

7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

#### Approved by

**Name** David Robertson      **Signature** .....

**Title** Director Finance & Corporate Governance

#### 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 16 Sept 2021

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Contact us at Contact us at: Pension & Investment Team, Council Headquarters,  
Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166.  
email: [treasuryteam@scotborders.gov.uk](mailto:treasuryteam@scotborders.gov.uk)

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## **RESPONSIBLE INVESTMENT MONITORING**

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### **Report by Director Finance & Corporate Governance**

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## **JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD**

**14 December 2021**

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### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide the Committee with the third annual monitoring report of the extent to which the Fund's Investment managers have complied with the requirements of the agreed Statement of Responsible Investment Policy.**
- 1.2 The Pension Fund as part of its fiduciary duties is required to ensure appropriate consideration is given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interest of the scheme beneficiaries. The Pension Fund approved a Responsible Investment Policy on 30 November 2018 and on 16 September 2021 approved a revision to the Policy. Annual monitoring is required under the terms of the policy. As the monitoring is retrospective the monitoring requirements per the 30 November 2018 have been used.
- 1.3 98.8% of the assets held by the Fund are managed by fund managers who are signatories to the United Nations Principles of Responsible Investment Code (UNPRI).
- 1.4 Information has been provided by Fund Managers and scored against questions listed in para 4.5. The scores for each manager is shown in para 4.6. Officers will work with Fund managers who score 15 or less to improve their performance and fully meet the objectives of the ESG policy.
- 1.5 The Fund is a "Supporter" of Climate Action 100+ as agreed on 12 September 2019. Climate Action 100+ has been active and successful in achieving a number of key commitments in a number of sectors to reduce carbon emissions.

### **2 RECOMMENDATIONS**

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

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

### **3 BACKGROUND**

- 3.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. In doing so it is intended that the financial contributions required of Fund employers will be minimised.
- 3.2 Trustees of the Pension Fund also have a responsibility to ensure the Fund is undertaking its investment activities in a socially responsible way. This means the fund must be aware of its Environmental, social and governance (ESG) responsibilities.
- 3.3 Public interest in ESG has increased in recent years and there is a drive to increase the responsibilities placed upon Trustees for Environmental, Social and Governance issues. It is no longer acceptable for Trustees to do nothing on ESG.
- 3.4 The Joint Pension Fund Committee and Pension Fund Board approved the first Statement of Responsible Investment Policy (SRIP) on 30 November 2018. Following an ESG workshop on 23 August 2021 a revised was presented and approved by the Committee on 16 September 2021. The Policy sets out the Fund's approach to responsible investment and arrangements to monitor manager performance against the principles of the policy on an annual basis.

### **4 2020-21 MONITORING**

- 4.1 The 2020-21 monitoring is based on the requirements in the SRIP approved on 30 November 2018. This requires all new fund managers to have signed up to the United Nations Principles of Responsible Investment (UNPRI). Since the last monitoring report on 24 September 2020, no new fund management appointments have been appointed.
- 4.2 16 out of the 17 existing managers have confirmed they are signatories to UNPRI. Gaia , the one manager who is not a signatory is however a signatory of to Global Real Estate Sustainability Benchmark (GRESB), which is deemed to be the ESG benchmark for real assets. Gaia GP Ltd is a small sustainable investment fund what has sustainable investment at the core and which specialise in sustainable infrastructure assets. In the review of the Funds RIP on 24 September 2021 GRESB was included as requirement for infrastructure and property managers who are not UNPRI signatories.
- 4.3 Signatories to UNPRI report on an annual basis on their responsible investment activities by responding to asset specific modules in the UPRI reporting framework. Each module houses a variety of indicators that address specific topics of responsible investment. The reports are then assessed and results are compiled into an Assessment Report. The Assessment report includes the following
  - Indicator scores – summarising the individual scores achieved and comparing them to the median
  - Section Scores – grouping similar indicator scores together into categories (e.g. policy assurance governance) and comparing them to the median

- Module scores – aggregating all the indicator scores within a module to assign one of six performance bands (from E to A+)

4.4 As part of the annual review process of Fund Managers all Managers have provided their 2020 Assessment Report. Key information for each the Managers has been extracted for the asset type held and is shown in Appendix 1. However due to changes in UNPRI reporting for some asset groups there have been a number of managers who have been unable to provide their most recent reports. For these managers the previous year reports has been used.

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

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

4.6 The table below shows the overall score for each manager funds where held with as at 31 March 2021. All Managers who are signatories to UNPRI agreed to share their Assessment Reports where they were available. Maximum score is 25.

<b>Manager</b>	<b>Overall score 2020/21</b>	<b>% of Assets held as 31/3/2021</b>	<b>Overall Score 2019/20</b>
Baillie Gifford	25	26.2	24.5
UBS	24	10.3	23
Morgan Stanley	25	13.8	21
LGT Capital	25	7.0	24.5
Blackrock	24	6.7	23
M&G	24	20.8	23.5
Partners	23	3.2	22
Permira	21	2.9	21
Macquarie	21	4.7	21
KKR	19	0.4	18
Dalmore	22	1.6	19
Brookfield	15	0.2	10
Infrared	23	0.1	20
Gaia	10	0.3	10
Equitix	20	0.2	20
Oaktree	15	0.3	15
Alinda	20	0.4	17
Cash	n/a	0.9	n/a

- 4.7 The scores above demonstrate the fund managers all have ESG policies in place and 16 out of 17 are signatories to the UNPRI. 98.8% of the assets of the Fund are managed by fund managers who scored 20 or more, this compares to 96.8% in 2019/20.
- 4.8 The table above also demonstrates the eleven out of the twelve fund managers reported last year have score either improved or same scores as 2019/20.

## **5 ENGAGEMENT AND PARTICIPATION**

- 5.1 The Joint Committee and Board agreed on 12 September 2019 to become "Supporter" to Climate Change 100+ initiative. The Fund has been accepted and now lends its support towards the initiative achieving the goals of the Paris Agreement.
- 5.2 Climate Action 100+, now has 615 investors, 167 companies and \$60 trillion in assets as signatories. Through its engagement activities it has achieved a number of key commitments in a number of sectors to reduce carbon emissions. During 2021 it has also worked with Bayer on the development of their first climate policy and set decarbonisation expectations for electric utility companies to achieve net zero emissions globally by 2040.
- 5.3 Officers remain active in the Scottish Responsible Investor round table group. This group is formed up of Scottish Investors from both Local Government and Private sector. The group looks to share good practice and investigate areas where of improvement in the Funds responsible investment areas.

## **6 IMPLICATIONS**

### **6.1 Financial**

There are no direct financial impacts relating to this report.

### **6.2 Risk and Mitigations**

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

### **6.3 Integrated Impact Assessment**

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

### **6.4 Sustainable Development Goals**

This report monitors the approved policy of responsible investment which will require Fund Managers and Companies the Fund is invested in to ensure

the environmental impact of their operations are considered and encourage them to act in a sustainable way.

#### 6.5 **Climate Change**

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

#### 6.6 **Rural Proofing**

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

#### 6.7 **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**

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

### **7 CONSULTATION**

7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), 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 .....**

**Director Finance & Corporate Governance**

#### **Author(s)**

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

#### **Background Papers:**

**Previous Minute Reference:** Joint Pension Fund Committee & Board, 24 September 2020

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

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

**Baillie Gifford**

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

**UBS**

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

**Morgan Stanley**

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

**LGT**

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

**Blackrock**

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

**M&G**

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

**Partners**

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

**Permira**

	01.Strategy & Governance	A+	
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10-50%	14. Fixed Income - Corporate Non-Financial	A	
<10%	15. Fixed Income - Securitised	A	
>50%	16. Private Equity	A+	

### Macquarie

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

Figures based on 2020 assessment report due to delay by UNPRI in release of 2021 submission.

### KKR

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

### Dalmore

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

**Brookfield-** Became signatories Not a UNPRI Signatory in early 2020 and will submit their first formal submission in early 2022 with results being available July 2022.

### Equitix

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

### Infrared

	01.Strategy & Governance	A+	
10-50%	17. Property	A+	
>50%	18. Infrastructure	A+	

**Gaia-** Not a UNPRI Signatory

**Oaktree-** Became signatory in inaugural PRI reporting requirement for the PRI, however the PRI have delayed the results until the summer of 2022

### Alinda

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

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## **INFORMATION UPDATE**

### **Briefing Paper by Director Finance & Corporate Governance Services**

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

**14 December 2021**

---

### **1 PURPOSE AND SUMMARY**

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

### **2 CYBER SECURITY UPDATE**

- 2.1 In the last information update it was reported that details on Cyber Security were still required from CGI, the Council's third party IT provider, these have now been provided.
- 2.2 A copy of the Security Management service agreement between CGI and Scottish Borders Council which includes the following element with specific mention of Cyber Security: -
- CGI will ensure that there will be a commensurate level or protective monitoring in place in line with the Her Majesty's Government Security Policy Framework and National Cyber Security Centre.

### **3 NATIONAL INSURANCE DATABASE**

- 3.1 The Fund have now completed sign up to the LGPS National Insurance Database and this is now operational, with all members of the Pensions Administration team having been given appropriate access.
- 3.2 The Fund has also signed up to the use of Tell Us Once via the Department of Work and Pensions (DWP) whereby the information upload to the National Insurance Database is interrogated against all

registered deaths in the UK. As a result of this it was necessary to carry out basic disclosure checks for all members of the Pensions Administration Team and the Privacy Notice was further updated. As a result of this automated notification of deaths recorded in the UK the Pensions Administration team have been able to stop paying for a similar service to Tell Us Once that was in use.

#### 4 **AVC UPDATE**

4.1 In June 2019 Scottish Borders Council and Live Borders implemented a Shared Cost AVC Scheme whereby employees are able to benefit from a reduction in National Insurance contributions in addition to saving Income Tax when compared to a traditional AVC scheme.

4.2 Since we reported figures for Scottish Borders Council in December 2020 there has been a further increase of 10 employees participating in the Shared Cost AVC scheme and a reduction of 3 employees in the traditional AVC Scheme.

	<b>2019</b>	<b>2020</b>	<b>2021</b>
Shared Cost AVC Scheme	58	76	89
Traditional AVC Scheme	10	8	5
Total	68	84	94

4.3 Scottish Borders Council and Live Borders continue to work alongside AVC Wise, who have recently appointed new engagement managers, to help promote the scheme benefits to employees.

#### 5 **DATA QUALITY**

5.1 The annual data quality report has been produced for 2021 which measures data against the requirements of the Pension Regulator. There are two different set of data that are measured and the results for the Fund are as follows: -

	2020 Results	2021 Results
Common Data	99.8%	99.7%
Scheme Specific Data	97.3%	97.0%

Whilst there is a slight decrease in the Common Data measure all categories met the highest benchmark of greater than 98% with three categories not recording a single failure. The lowest scoring

category was address and this achieved a score of 98.6%, a slight decrease from 2020, but attributed to the Pensions Administration team having updated the Administration System to show those deferred members who had an Annual Benefit Statement returned and marked as gone away in the address pending receipt of an updated address.

5.2 The detailed report of the impacted scheme members has been received from our software provider, who runs this process on our behalf, and the changes identified for the Common Data report have been amended where possible. As noted above, there are some addresses where updates are required from the scheme members. Additionally, there are child pension payments where an NI Number cannot be entered due to the age of the child.

5.3 Within the Scheme Specific Data, the Pensions Administration team are reviewing the detailed information and continue to look at steps that need to be taken to improve the overall data quality. To date this has identified that there are some additional fields included in the data reporting that we need to update with completion dates of Transfers, this is being progressed. Another area that will have an increased scoring will be addressed at the conclusion of the GMP reconciliation project.

## **6 EARLY STRAIN FACTORS**

6.1 The updated Early Strain Factors that were approved at the Joint Meeting in September have been implemented by the Pensions Administration Team and came into effect from 1 December 2021.

## **7 OVERSEAS LIFE CHECKS**

7.1 The annual process of issuing Life Certificates for overseas Pensioners has been undertaken. There were 38 issued and to date there have been 32 returned, the remaining 6 have had reminders sent. If not returned ahead of the December payroll being processed payment will be suspended.

## **8 PENSIONS DASHBOARD**

8.1 In 2019 an announcement was made regarding the implementation of a Pensions Dashboard that would amalgamate all pension benefits from all schemes, not just LGPS, to enable employees to make pension choices based on the correct information for all scheme they

have membership off.

- 8.2 2021 has seen the development and testing phase of this programme, during 2022 there will be voluntary on-boarding and ongoing testing and from 2023 there will be staged on-boarding and dashboards will become available. We will be monitoring this development for the remainder of 2021-22 and this will then form part of the Pension Fund Business Plan for future years.

## **9 SCHEME ADVISORY BOARD**

- 9.1 The last reported meeting of the Advisory Board was 19th May and was reported to Joint Committee and Board on 10 June. The Bulletin of this meeting was not available at previous meeting but is now attached in Appendix 1 for information.
- 9.2 The Board also met on 18<sup>th</sup> August for an extraordinary meeting for which no bulletin will be issued.
- 9.3 The Board met again on 22 September and the bulletin from the meeting is attached in Appendix 2 for information.
- 9.4 A further meeting was held on 24 November and the bulleting form the meeting is attached in Appendix 3 for information.
- 9.5 The SAB issued the letter contained in Appendix 4 on cessations of employers from the SLGPS. In accordance with the Business Plan the Fund are going to carry out a review of all Admission Agreements with the Fund Actuary, this will consider the matter of cessation. At the next scheduled review of the Funding Strategy Statement the points mentioned in the attached letter will be considered and updated as necessary.

## **10 TRAINING OPPORTUNTIES**

- 10.1 There have been 4 training opportunities during the year which many members have attended. There is a requirement for all members to attend at least two events a year. To date 7 members of the Committee and all of the members of the Board have met this requirement.

10.2 The PLSA will be holding a virtual ESG Conference on 9 and 10 March 2022. The full programme is currently not available but will look to cover the following topics

- COP26 – what’s next for pensions?
- Regulation and reporting
- Communication and engagement
- ESG Investment

The full programme will be circulated when available.

10.3 The annual PLSA Investment conference which has traditionally taken place in Edinburgh in March has for 2022 moved to 25-26 May. The event is currently being planned as a face to face event and further information will be circulated as they become known.

10.4 Officers continue to monitor other training opportunities and these will be shared with the Committee and Boards as they become available.

## 11 FUTURE MEETINGS

11.1 The dates of future meetings are given below for information

Joint Pension Fund Committee and Pension Fund Board

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

Pension Fund Investment Performance Sub Committee

- Monday 22 February 2022
- Tuesday 28 June 2022

### Author(s)

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

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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](http://www.lgpsab.scot).

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September 2021

## BULLETIN

### Cessation

Following the report of the SAB's working group on cessation issues, a set of proposals has been agreed to help guide Funds with employers who wish to withdraw from the LGPS. These are broadly around the extent and limitations of guarantees covering admitted bodies, but also that funding strategy statements should include proportionate steps to address historic liabilities and steps to transfer staff between funds.

### Cost Cap

The SAB has submitted a response to HM Treasury consultation on the cost cap, available [HERE](#). Key points include that the LGPS is a funded scheme where real-world costs can be examined, and the broad assumptions that are used for funded schemes are inaccurate and inappropriate, and in any event could be more sophisticated. It also pointed out that having a 'cost collar' around the costs of the scheme inevitably created a cliff edge, and it is was breached there would be a major financial impact for either employers or members. The SAB has also written to the Scottish Ministers highlighting issues around the cost cap.

### Structures

The SAB received and agreed a report from its structures sub-group, which is developing business cases for the alternative structures of LGPS Funds in Scotland. This included the project Purpose and Principles, to provide a reference point to test relevance and validity of evidence, and plans for a gap analysis of existing evidence by an experts working group. Communications and engagement are well under way, but the volume of work means that future deadlines will be tight. Subsequent reports will be made to each SAB meeting.

### Climate Risks

The Pension Schemes Act 2021 introduced an array of reporting requirements for large private sector pension schemes around identifying and managing climate-related risks. These [regulations](#) were based on the report of the Taskforce for Climate-related Disclosures (TCFD). On both sides of the border, the UK and Scottish Governments are now looking at similar requirements for the LGPS, although there are no consultations at this stage. The SAB is liaising with the English and Welsh LGPS SAB's "[Responsible Investment Advisory Group](#)" on best practice and emerging issues.

### Improving communication

The SAB previously agreed to invite chairs from local Fund Boards to attend meetings as observers, to make the work of the SAB more open and accessible. This has successfully happened for the last two meetings, and as there has been some turnover in chairs another invitation is being circulated. In addition, the SAB has decided to publish its meeting papers and minutes on its website. As minutes need to be agreed, the SAB bulletin will continue to be issued after meetings as a rapid update.

Further details on our website [www.lgpsab.scot](http://www.lgpsab.scot).

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**November 2021**

# **BULLETIN**

## **Structure Review Project**

The expert working group from the LGPS Fund structures review project has now completed a baseline review of 17 major pieces of existing evidence. This took a quality assurance approach, testing the evidence not on its conclusions but on its rigour, relevance, and whether it was duplicated by subsequent research. This will set the scene for subsequent pieces for work which will be needed to underpin business cases for the four options (status quo, enhanced co-operation, pooling, merger). In aid of this, funds have been generous in sharing information on the data they hold. It will also be important to baseline how the current system is working across the existing 11 funds, as significant variations have emerged.

The full analysis of the baseline information, and proposals for taking the project forward to conclusion (including methodology, work packages, timescales, and costs) will be developed and taken to the next SAB meeting in February 2022.

## **LGPS regulations amendments**

The SPPA is consulting on a number of amendments to the LGPS regulations. These include correcting the employers target cost rate from 15.5% to 15.2% (this is used in the cost cap mechanism), which will allow the Government Actuaries Department (GAD) to finalise the 2017 scheme valuation. The changes will (if agreed) also allow for amendments to an employer's contribution rate in between valuations, and make some technical adjustments to survivor partner pensions and the (existing) 'underpin' protections.

## **Climate-related investment Risks**

The SAB had been asked by Scottish Ministers for its recommendations on the introduction of climate risk reporting and ESG standards for local authority pension funds, broadly in line with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD). These have already been introduced for non-public sector pension schemes, and require them to have effective governance, strategy, risk management and targets for the assessment / management of climate risks (and opportunities). The SAB has established a short-life working group to bring forward proposals on this.

## **Cost Transparency**

The SAB previously endorsed the Transparency Code to address the issue of disclosure of costs and fees, and the associated online reporting system. This has now been in operation for its first full financial year (2020/21) and reports are now available to LGPS Funds broken down into management fees, performance fees, and transaction costs.

**Further details on our website [www.lgpsab.scot](http://www.lgpsab.scot).**

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For the attention of Administering Authorities  
C/O Pension Fund Contacts

Dear Colleagues,

### **Cessation of Employers from the SLGPS**

The Scottish LGPS Advisory Board established a working group with relevant stakeholders which has considered a number of issues around cessation of employers from the LGPS.

The issues relate to the ability of employers to leave the LGPS, and the implications on them when doing so. Funds are granted flexibilities in the LGPS (Scotland) regulations on this issue, but there is limited guidance beyond this. Therefore, the SAB agreed to provide the following advice to funds:

1. To ask administering authorities to engage with admitted bodies, on request, as to the extent and limitations of any guarantees so they are aware of the outcome of leaving the fund before any decision is made.
2. To include in their Funding Strategy Statements:
  - Relevant steps to permit transfers of staff between funds as a pragmatic solution to cessation issues.
  - Include proportionate steps for identifying historic liabilities which are relevant to the specific admission agreement and exit plan.
  - Their approach to using the 90-day stability option, when this is available in regulations.

Papers providing further context and the report from the SAB working group can be found [here](#)

Yours sincerely,

Jonathan Sharma  
Simon Watson

SLGPSAB Joint Secretaries

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## **STRATEGIC ASSET ALLOCATION IMPLEMENTATION**

**Report by Director Finance & Corporate Governance**

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

**14 December 2021**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide the Committee and Board with an update on the implementation of the revised strategic asset allocation approved on 10 June 2021.**
- 1.2 Following the 2020 triennial valuation a review of the strategic asset allocation was undertaken by Isio, the Fund's investment advisor. The recommendations from the review were approved by Committee on 10 June 2021. Delegated authority was given to the Director of Finance & Corporate Governance to implement the revised allocation.
- 1.3 The 30% allocation to Active equities included a detailed split between managers and funds. Further discussion with Baillie Gifford highlighted ESG changes to the UK Fund which will allow the Fund to maintain its UK positions and still meet the ESG aspirations of the Fund, whilst avoiding transition costs. It is therefore proposed the detailed split if revised to the allocations shown in para 4.3
- 1.4 Good progress has been made in private credit, passive equities and long lease property since the strategy was approved in June. Further work is also underway with the completion of the Infrastructure procurement and agreement on the type of residential property investment.

## **2 RECOMMENDATIONS**

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

- (a) Note the progress made to date on the implementation of the revised strategic asset allocation**
- (b) Agree the revised strategic asset allocation for active equities as detailed in para 4.3 and;**
- (c) Delegate authority to Director Finance & Corporate Governance, in consultation with the Chair of the Pension Fund Committee, and based on advice of the Investment Advisor to undertake a procurement exercise for a Residential Property manager.**

### 3 BACKGROUND

- 3.1 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.
- 3.2 The primary aim of the Fund is "To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis". 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.
- 3.3 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.
- 3.4 Following the 2020 triennial valuation a reviewed was undertaken of the strategic asset allocation. The revised asset allocation was approved on 10 June 2021. Delegated authority was given to the Director of Finance & Corporate Governance to progress the implementation.

### 4 IMPLEMENTATION UPDATE

- 4.1 The table below details the approved allocation and the required movements from the previous strategic asset allocation.

Asset Group	Previous Allocation	Revised Allocation	Move-ment
Passive Equities	6%	10%	4%
Active Equities	34%	30%	(4%)
<b>Total Equities</b>	<b>40%</b>	<b>40%</b>	-
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%

- 4.2 The investments held with UBS in the UK Passive Equity have been fully disinvested and the procurement to replace this with an ESG focused passive mandate has been completed with the Committee approving the appointment of LGIM on 16 September 2021. The required "on boarding" has been completed and funds will be drawn down in December/January.

4.3 The review also refined the breakdown of the Active Equities allocation. Further discussions in relation to the implementation of the new equity portfolio were held. These discussions were specifically in relation to the Baillie Gifford UK Equity mandate. Since the initial decision was made to terminate the UK Alpha mandate, Baillie Gifford have announced that they are now planning to align the UK Alpha strategy with the objectives of the Paris Agreement (in line with the approach already used for their Global Alpha strategy). This development would serve to increase the ESG credentials of the Fund without the need to switch the existing holdings to the Baillie Gifford Positive Change strategy thereby removing any potential transaction costs which could be incurred as part of the implementation. The outlook for UK equities (vs global equities) was also discussed, given the attractive valuations which UK equities offer relative to the rest of the world. As a result of these discussions a revised target equity portfolio for implementation is proposed and is detailed in the table below.

Fund	Original	Revised	Proposal
Baillie Gifford UK Alpha	4%		4%
Baillie Gifford Global Alpha	18%		
Morgan Stanley Global Sustain	12%	13%	13%
Baillie Gifford Positive Change		2%	
Baillie Gifford Global Alpha Paris Aligned		15%	13%
	34%	30%	30%

4.4 The Baillie Gifford active global fund has been fully transitioned into the "Paris Aligned Global Equity Fund" which further enhances the Funds' ESG credentials.

4.5 Instructions have now been submitted to reduce the current investment in diversified alternatives with LGT. The first tranche of these funds will be returned on 1<sup>st</sup> April 2022.

4.6 Due to the maturing nature of the investments held in direct lending/private credit mandates, and the requirement to maintain the allocation at 10%, the Pension Fund has committed to a further two investments with existing managers Partners Group and Permira. All on boarding documents have been completed and the first drawdown of £5.2m from Partners Group occurred on 21 July 2021.

4.7 The balanced property fund with UBS is in the process of being fully disinvested. Following a number of meetings with UBS instructions were issued to sell the Pension Funds holdings on secondary market by 26<sup>th</sup> April, expect for one holding which will be retained until Q3 2022 in an attempt to maximise the sale proceeds realised. UBS have commenced the sale and have currently returned 26% of the funds.

4.8 The approved 2% increase in Long Lease property has been fully implemented. A secondary opportunity was highlighted by Blackrock which fully met the value to the additional investment approved. The Fund agreed to purchase the full secondary opportunity which has resulted in the full additional allocation being funded and a small element for future growth of the overall Fund.

- 4.9 Residential Property is a new asset class for the Fund with an approved allocation of 2.5%. Training was provided to the Investment and Performance Sub Committee on 27<sup>th</sup> September covering the characteristics and opportunities within the residential area. Following this training it is recommended the Fund focus the Residential allocation in the Affordable Rented or Socially focussed areas. These will provide high inflation linkage, limited exposure to house prices, together with a high ESG impact. Isio will produce a shortlist of prospective managers to present to the Appointment Sub Committee. The outcome of this will be presented to the Committee in March.
- 4.10 A procurement exercise has also been undertaken to appoint a manager for the additional 3% allocation to infrastructure. The outcome of the procurement exercise is detailed in a separate report.

## **5 IMPLICATIONS**

### **5.1 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 procurement exercise for residential property will take place during Q1 2022 with Isio providing a short list of managers. The cost of the exercise will be £18,000 and will be fully funded by the Pension Fund.

### **5.2 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 cash flow 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 cash flow 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.

### 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 to demonstrate that equality, diversity and socio-economic factors have duly been considered when preparing this report.

### 5.4 **Sustainable Development Goals**

The implementation of the revised strategic asset allocation and the Funds Responsible Investment Policy, will further strengthen the Funds commitment to sustainable investment.

### 5.5 **Climate Change**

The implementation of the revised strategic asset allocation and the Funds Responsible Investment Policy, will further strengthen the Funds commitment to climate change.

### 5.6 **Rural Proofing**

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

### 5.7 **Data Protection Impact Statement**

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

### 5.8 **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/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), the Clerk to the Council and Corporate Communications and any comments received will need to be incorporated into the final report.

### **Approved by**

**David Robertson**  
**Director, Finance and Corporate Governance**

**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, 10 June 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.

Contact us at Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email: [treasuryteam@scotborders.gov.uk](mailto:treasuryteam@scotborders.gov.uk)

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