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PENSION FUND COMMITTEE AND PENSION BOARD
THURSDAY, 17 MARCH 2022

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA MS TEAMS on THURSDAY, 17 MARCH 2022 at 2.00 PM

J. J. WILKINSON,
Clerk to the Council,

10 March 2022

BUSINESS		
1.	**Apologies for Absence**	
2.	**Order of Business**	
3.	**Declarations of Interest**	
4.	**Minute** (Pages 5 - 10) Minute of Meeting held on 14 December 2021 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	**Fund Strategy Statement and Statement of Investment Principles 2022** (Pages 11 - 84) Consider report by Director, Finance & Corporate Governance. (Copy attached).	10 mins
6.	**Risk Register Update** (Pages 85 - 94) Consider report by Director, Finance & Corporate Governance. (Copy attached).	10 mins
7.	**Pension Fund Budget Monitoring to 31 December 2021** (Pages 95 - 100) Consider report by Director, Finance & Corporate Governance. (Copy attached).	10 mins
8.	**External Audit Plan 2021/22** (Pages 101 - 118) Consider Annual Audit Plan 2021/22 by Audit Scotland. (Copy attached).	10 mins
9.	**Responsible Investment - Objective and Metrics Setting** (Pages 119 - 158) Consider report by Director, Finance & Corporate Governance. (Copy attached).	20 mins

10.	**Information Update** (Pages 159 - 162) Consider briefing paper by Director, Finance & Corporate Governance. (Copy attached).	10 mins
11.	**Scottish Borders Council Pension Fund Internal Audit Annual Plan 2022/23** (Pages 163 - 168) Consider report by Chief Officer, Audit & Risk. (Copy attached).	10 mins
12.	**Any Other Items Previously Circulated**	
13.	**Any Other Items which the Chairman Decides are Urgent**	
14.	**Items Likely To Be Taken In Private** Before proceeding with the private business, the following motion should be approved:- "That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act."	
15.	**Minute** (Pages 169 - 170) Private Section of Minute of Meeting held on 14 December 2021 to be noted and signed by the Chairman. (Copy attached).	2 mins
16.	**Pension Fund Investment and Performance Sub-Committee** (Pages 171 - 174) To note the Private section of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 27 September 2021. (Copy attached).	2 mins
17.	**Q4 2021 Investment Performance** (Pages 175 - 216) Consider report by Isio. (Copy attached).	30 mins
18.	**Residential Property Mandate Procurement** (Pages 217 - 226) Consider report by Director, Finance & Corporate Governance. (Copy attached).	10 mins

NOTES

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

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

Membership of Committee:- Councillors D. Parker (Chairman), J. Brown, G. Edgar, C. Hamilton, D. Moffat, S. Mountford, S. Scott, S. Aitchison, Mr D Bell, Mr 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 Louise McGeoch, Democratic Services Team Leader
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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 Tuesday, 14 December 2021 at 10.00 am

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Present:-	Councillors D. Parker (from paragraph 8), S. Aitchison, Councillors J Brown G. Edgar, , C. Hamilton D. Moffat, S. Mountford S. Scott; Mr D. Bell, Mr A. Daye, Mr M. Drysdale, Mr M. Everett, Ms K. Hughes, Ms L. Ross.
Apologies:-	Ms H. Robertson.
In Attendance:	Director Finance & Corporate Governance, Pensions and Investment Manager, HR Shared Services Manager, Democratic Services Team Leader, Democratic Services Officer (D.Hall).
Also in Attendance:	Ms A Buchanan, Mr A Singh, Isio, and Ms A. Fitzpatrick, Audit Scotland

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

1. **MINUTE**
There had been circulated copies of the Minute of the Meeting held on 20 October 2021.

DECISION
NOTED for signature by the Chairman.

2. **COMMITTEE MINUTE RECOMMENDATION**
There had been circulated copies of an extract from the Minute of the Audit & Scrutiny Committee meeting held on 21 October 2021 that recommended the Committee sought reassurance that by 31 March 2022 the recommendations detailed in the management action plan would be achieved. Mr Ian Angus, HR Shared Services Manager provided an update on actions and advised that some elements of the plan would be covered in more detail within the Information Update as detailed in paragraph 8 below.

DECISION
NOTED.

3. **RISK REGISTER UPDATE**
With reference to paragraph 4 of the Minute of the meeting held on 16 September 2021, there had been circulated copies of a report by the Director Finance & Corporate Governance that formed part of the risk review requirements of the pension fund. The report provided an update of the progress of the actions taken by Management to mitigate the risks previously identified, a review of any new risks and highlighted changes to any of the risks contained in the Risk Register. Identifying and managing risk was a cornerstone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. 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. Appendix 1 to the report detailed the risks within the approved risk register which had been identified management actions and the progress of those actions to date. There were no new risks identified during the review.

DECISION

AGREED:-

(a) to note the management actions progress as contained in Appendix 1 to the report;

(b) to note no new quantifiable risks had been identified since the last review; and

(c) an update on progress of management actions was to be presented in March 2022.

4. **PENSION ADMINISTRATION STRATEGY**

With reference to paragraph 6 of the Minute of the meeting held on 24 September 2020, there had been circulated copies of a report by the Director People Performance & Change that proposed the revised Pension Administration Strategy for the Scottish Borders Council Pension Fund. The Pension Fund was required by the Local Government Pension Scheme (Scotland) Regulations 2018 to have an up-to-date Pension Administration Strategy. Appendix 1 to the report contained the revised Pension Administration Strategy which had a number of amendments made to the previously approved version, mainly in relation to the introduction of the Member Self Service Portal and set targets. Other changes were in the departmental names and post titles for officers and an update to the list of Employers within the Fund.

DECISION

AGREED the Pension Administration Strategy as set out in Appendix 1 to the report.

5. **BUSINESS PLAN PERFORMANCE UPDATE**

With reference to paragraph 7 of the Minute of the Meeting held on 10 June 2021, there had been circulated copies of a report by the Director Finance & Corporate Governance providing members of the Committee and the Board with an update on delivery of the actions within the approved business plan. 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 was included in Appendix 1 to the report. 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. There were 30 key tasks due for completion during 2021/22. Of these 16 were fully complete, 12 were on track to be completed by the approved target date and 2 required revised target dates.

DECISION

AGREED:-

(a) to note the progress of the 2021/22 actions within the business plan;

(b) 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) the revised target date of 31 June 2022 for the implementation of i-connect.

6. **PENSION FUND BUDGET MONITORING TO 30 SEPT 2021**

With reference to paragraph 7 of the Minute of the Meeting held on 16 September 2021, there had been circulated copies of a report by the Director Finance & Corporate Governance providing the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund Budget to 30 September 2021 including projects to 31 March 2022. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they were to be measured against. To ensure the Fund met the standards a budget was approved on 4 March 2021 following the recommendations within the CIPFA accounting guidelines headings. The report was the third quarterly monitoring report of the approved budgets. The total expenditure to 30 September 2021 was £0.375m with a projected total expenditure of £7.147m against a budget of £7.129m. This projected a budget variance of £18k which represented procurement costs for a Residential Property investment manager. A key objective of the Fund was to pay pension benefits as they became due. Due to the maturing nature of the fund and this requirement the Fund had included within its investment strategy the requirement for income generating assets. The graph within the report showed the Fund had been able to fully meet its cashflow requirements. In response to a question regarding management expenses, the Pensions & Investments Manager advised that the Pensions team was initially paid by Scottish Borders Council before being charged to the Pension Fund.

DECISION
AGREED:-
(a) to note the actual expenditure to 30 September 2021;

(b) the projected out-turn as the revised budget; and

(c) to note the cashflow position.

7. **RESPONSIBLE INVESTMENT MONITORING**

With reference to paragraph 9 of the Minute of the Meeting held on 24 September 2020, there had been circulated copies of a report by the Director Finance & Corporate Governance providing the Committee with the third annual monitoring report of the extent to which the Fund's Investment managers had complied with the requirements of the agreed Statement of Responsible Investment Policy. The Fund as part of its fiduciary duties was required to ensure appropriate consideration was given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interest of the schemes beneficiaries. The Fund approved a Responsible Investment Policy on 30 November 2018 and on 16 September 2021 approved a revision to the policy. Annual monitoring was required under the terms of the policy. As the monitoring was retrospective the monitoring requirements per the 30 November 2018 had been used. 98.8% of the assets held by the Fund were managed by Fund Managers who were signatories to the United Nations Principles of Responsible Investment Code (UNPRI). Information had been provided by Fund Managers and scored against questions listed in the report. The scores for each manager was also shown in the report. Officers would work with Fund Managers who scored 15 or less to improve their performance and fully meet the objectives of the ESG policy. The Fund was a "Supporter" of Climate Action 100+ as agreed on 12 September 2019. Climate Action 100+ had been active and successful in achieving a number of key commitments in a number of sectors to reduce carbon emissions. Regarding the low scores of Brookfield and Gaia the Pensions and Investments Manager advised the scores were low largely because they were not signed up to UNPR, given that their investment focus was primarily in infrastructure, and that Ms Robb had no real concerns about the scores.

DECISION
AGREED:-
(a) to note the actual expenditure to 30 June 2021; and

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

8. **INFORMATION UPDATE**

8.1 There had been circulated copies of a briefing paper by the Director Finance & Corporate Governance providing Members of the Committee and the Board with an update on a number of areas which were being monitored and areas where work was progressing. Full reports on individual areas would be tabled as decisions and actions were required. In summary:

8.2 **Cyber Security Update**
All details required from CGI, the Council's third party IT provider, on Cyber Security had now been provided.

8.3 **National Insurance Database**
The Fund had now completed sign up to the LGPS National Insurance database, and that was now operational, with all members of the Pensions Administration team given appropriate access. The Fund had also signed up to the Tell Us Once scheme whereby information uploaded to the National Insurance Database was checked against all registered deaths in the UK. As a result, a comparable service was no longer in use, which resulted in a small saving for the fund.

8.4 **AVC Update**
There had been a further increase of 10 Scottish Borders Council employees participating in the Shared cost AVC scheme, and a reduction of 3 employees in the traditional AVC scheme. SBC and Live Borders had continued to work alongside AVC Wise, who had appointed new engagement managers to help promote the scheme benefits to employees.

8.5 **Data Quality**
The annual data quality report had been produced for 2021, and whilst there showed a slight decrease in the Common Data measure all categories met the highest benchmark of greater than 98%. Address was the lowest scoring category, attributed to the Pensions Administration team having updated the 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.

8.6 **Early Strain Factors**
The updated Early Strain Factors had been implemented by the Pensions Administration Team and came into effect from 1 December 2021.

8.7 **Overseas Life Checks**
The annual process of issuing Life Certificates for overseas Pensioners had been undertaken. Mr Ian Angus, the HR Shared Services Manager, advised that 38 had been issued and that 3 remained outstanding, 1 of those remaining outstanding Pensioners had contacted the team.

8.8 **Pensions Dashboard**
The Pensions Dashboard, the system proposed to enable employees to see and make pension choices based on the information for all schemes they were members had been developed and tested in 2021. 2022 would see voluntary on-boarding and testing. From 2023 there would be staged on-boarding and dashboards would become available.

8.9 **Scheme Advisory Board**
The last reported meeting of the Advisory Board was 19 May and was reported to the Committee and Board on 10 June, the bulletin from that meeting was attached in Appendix 1 to the briefing paper. The Board held an extraordinary meeting on 18 August, for which no bulletin would be issued. The Board had also met on 22 September and 24 November, the bulletins were included in Appendix 2 and 3 to the briefing note respectively.

8.10 **Training Opportunities**
There had been 4 training opportunities during the year. There was a requirement for all Members to attend at least 2 events a year. To date 7 members of the Committee and all members of the Board had met this requirement. The PLSA would be holding a virtual

ESG conference on 9 and 10 March 2022, with various topics of discussion indicated. The annual PLSA Investment conference which normally took place in March had been moved to 25-26 May, with plans in place to hold the event in person. The Pensions and Investments Manager undertook to advise Members once the agenda had been confirmed.

8.11 **Future Meetings**
The dates of the proposed future meetings had been circulated for information.

DECISION
NOTED the briefing paper.

MEMBER
Councillor D Parker joined the meeting during the discussion of the above item.

9. **STRATEGIC ASSET ALLOCATION IMPLEMENTATION**
With reference to paragraph 12 of the Minute of the Meeting held 10 June 2021, there had been circulated copies of a report by the Director Finance & Corporate Governance providing an update on the implementation of the revised strategic asset allocation. Following the 2020 triennial valuation of a review of the strategic asset allocation was undertaken by Isio. The recommendations from the review were approved by the Committee on 10 June 2021. Delegated authority was given to the Director of Finance & Corporate Governance to implement the revised allocation. The 30% allocation to the Active equities included a detailed split between managers and funds. Further discussion with Baillie Gifford highlighted ESG changes to the UK Fund which would allow the Fund to maintain its UK positions and still meet the ESG aspirations of the Fund, whilst avoiding transition costs. Good progress had been made in private credit, passive equities and long lease property since the strategy had been approved. Further work was underway with the completion of the Infrastructure procurement and agreement on the type of residential property.

DECISION
AGREED:-

(a) to note the progress made to date on the implementation of the revised strategic asset allocation;

(b) the revised strategic asset allocation for active equities; and

(c) to delegate authority to Director Finance & Corporate Governance, in consultation with the Chair of the Pension Fund Committee, and based on advise of the Investment Advisor to undertake a procurement exercise for a Residential Property Manager.

CHAIRMAN
Councillor Parker assumed Chairmanship of the meeting.

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

SUMMARY OF PRIVATE BUSINESS

11. **INVESTMENT PERFORMANCE QUARTER TO 30 SEPTEMBER 2021**
The Committee and Board considered a report by Isio.

MEMBER
Councillor Aitchison left the meeting during consideration of the item above.

12. **INFRASTRUCTURE MANDATE PROCUREMENT**
The Committee and Board considered a report by the Director Finance & Corporate Governance and approved the recommendations.

The meeting concluded at 11.10 am

Scottish Borders COUNCIL

FUND STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES 2022

Report by Director - Finance & Corporate Governance

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

17 March 2022

1 PURPOSE AND SUMMARY

1.1 **This report proposes the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2022. Both these documents should be kept under review and be updated and approved annually in line with the Pension Fund's business plan. This report discharges that requirement.**

1.2 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles and Funding Strategy Statement.

1.3 Appendix A contains the Funding Strategy Statement

1.4 Appendix B contains the revised Statement of Investment Principles (SIP) for approval.

2 RECOMMENDATIONS

2.1 **It is recommended that committee:**

(a) Note the Funding Strategy Statement set out in Appendix A and;
(b) Approve the Statement of Investment Principles set out in Appendix B

3 BACKGROUND

3.1 It is a requirement of the Local Government Pension Scheme (LGPS) Regulations that the Pension Fund maintain a Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP), which are reviewed on a regular basis.

3.2 Local Government Pension Scheme (LGPS)GPS administering authorities are also required by regulation to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the "Myners Principles" and the reporting of compliance with these principles, must be included in the SIP.

3.3 **Myners Principle 2: Clear Objectives** states that:

An overall investment objective(s) should be set out for the fund that takes account of the schemes liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Myners Principle 3: Risk and Liabilities states that:

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

3.4 An authority can demonstrate compliance with these Myners Principles through the review of its investment objectives and the strategic asset allocation in light of updated actuarial valuations of the Fund's liabilities.

3.5 The 2020 Valuation of the Fund reported a 110% funding position in relation to the estimated assets held against future liabilities. This is a strong position for the Fund and it is important to continue to ensure that this position is maintained in the long term in order to meet the Fund's primary aim:

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

4 FUNDING STRATEGY STATEMENT

4.1 **Appendix A** contains the Funding Strategy Paper as approved by the Pension Fund Committee on 4 March 2021. A review has been undertaken of the Strategy and no changes have been identified.

5 STATEMENT OF INVESTMENT PRINCILPLES

5.1 **Appendix B** contains the revised Statement of Investment Principles (SIP). The main amendments to the Statement are listed below:

Para	Amendment
4.8	Updated to reflect strategic asset allocation review undertaken in June 2021 and updated in December 2021
4.10	Updated to reflect changes in asset managers
4.14	Updated to reflect revised asset return target agreed as part of the triennial valuation
4.26	New bullet point added to highlight cashflow monitoring and reporting Second and third bullet points updated to reflect revised asset allocation
5.2	Updated to remove UBS passive equity and replaced with LGIM
Appendix 3	Updated to reflect approved strategic asset allocation and managers
Appendix 4	Updated to reflect changes in managers
Appendix 5	Replaced with Responsible Investment Policy approved Sept 21

6 IMPLICATIONS

6.1 Financial

The Statement of Investment Principles sets out the strategic framework to deliver the target returns required to meet the Fund's funding objectives. Successful delivery of these principles should ensure the stability of the funding position of the Pension Fund and therefore the stability of employer contribution rates

6.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. A risk register is maintained and reviewed quarterly in line with CIPFA Pension Fund Risk Register guidance.

6.3 Integrated Impact Assessment

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

6.4 **Sustainable Development Goals**
The UN sustainability goals have been examined and there are no negative impacts arising from this report.

6.5 **Climate Change**
The recommendations of this report, per the Funds Responsible Investment Policy, will further strengthen the Funds commitment to reducing climate change. Although no direct impact on climate change the policy continues the Funds commitment to 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**
No changes to the Scheme of Administration of Scheme of Delegation are required as a result of this report.

7 CONSULTATION

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

Approved by

David Robertson
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 – 4 March 21

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

Scottish Borders Council Pension Fund

Funding Strategy Statement

January 2022

Contents

Funding Strategy Statement

1 Introduction

1.1 What is this document?

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

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

1.2 What is the Scottish Borders Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

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

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

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

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

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

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

2 Basic Funding issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

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

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

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

2.2 What is each employer's contribution rate?

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

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

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

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

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

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

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

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

Costs of ill-health early retirements are covered in 3.7

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2.5 How is a funding level calculated?

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

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

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

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

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

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

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

It should be borne in mind that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.9 When will the next actuarial valuation be?

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

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

3 Calculating contributions for individual Employers

3.1 General comments

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

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

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

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

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

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

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

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

3.3 The different approaches used for different employers

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

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

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

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

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

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

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2021 for the 2020 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations but would reserve the right to propose alternative time horizons, for example where an employer closed to new entrants over the inter-valuation period.

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

Note (d) (Secondary rate)

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

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

Note (e) (Likelihood of achieving funding target)

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

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

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

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

Note (f) (Regular Reviews)

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

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

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

Note (g) (New Admission Bodies)

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

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

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

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

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

Note (h) (Admission Bodies Ceasing)

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

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

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

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2015 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2015) are confirmed, the Fund's policy is that the actuary will value the employer's liabilities in line with instructions SPPA set out for the 2020 formal valuations.

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

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

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

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

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

<u>Community Admission Bodies</u>

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

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

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort (i.e. will only step in to pay for employer liabilities if the employer is unable to), and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the Fund's ongoing valuation basis; or

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

Transferee Admission Bodies

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

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

3.4 Pooled contributions

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

The employers who do not participate in the pool are:

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

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

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

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

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

3.5 Additional flexibility in return for added security

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

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

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

3.6 Non ill health early retirement costs

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

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

3.7 Ill health early retirement costs

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

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

3.8 Employers with no remaining active members

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

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

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

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

3.9 Policies on bulk transfers

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

- Where only active members transfer out, the Fund will not pay bulk transfers greater than the value of the members' liabilities had they opted to transfer on an individual basis (i.e. Cash Equivalent Transfer Values);
- Where the entire membership of the employer (i.e. active, deferred and pensioner members) transfers out, the Fund will not pay a bulk transfer greater than the asset share of the transferring employer;

- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 Solvency

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

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

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

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

5.3 Long Term Cost Efficiency

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

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

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

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

Relative considerations include:

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

Absolute considerations include:

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

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

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

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

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published, in 04 March 2021.

A3 How is the FSS published?

The FSS is made available through the following routes:

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

A4 How often is the FSS reviewed?

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

It is possible that (usually slight) amendments may be needed within the three year period following an annual review that will take place each year. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

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

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

A5 How does the FSS fit into other Fund documents?

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

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

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

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

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

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

The Fund's risk register can be found by clicking :here

Appendix D – The calculation of Employer contributions

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

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

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

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

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

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

Employer contributions are normally made up of two elements:

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

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

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

D2 How is the Primary contribution rate calculated?

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

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

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

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

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

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

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

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

D3 How is the Secondary contribution rate calculated?

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

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

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

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

D4 What affects a given employer's valuation results?

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

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

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. This is done using a ‘cashflow approach’ in which an employer’s assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer’s assets.

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

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

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

Appendix E – Actuarial assumptions

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

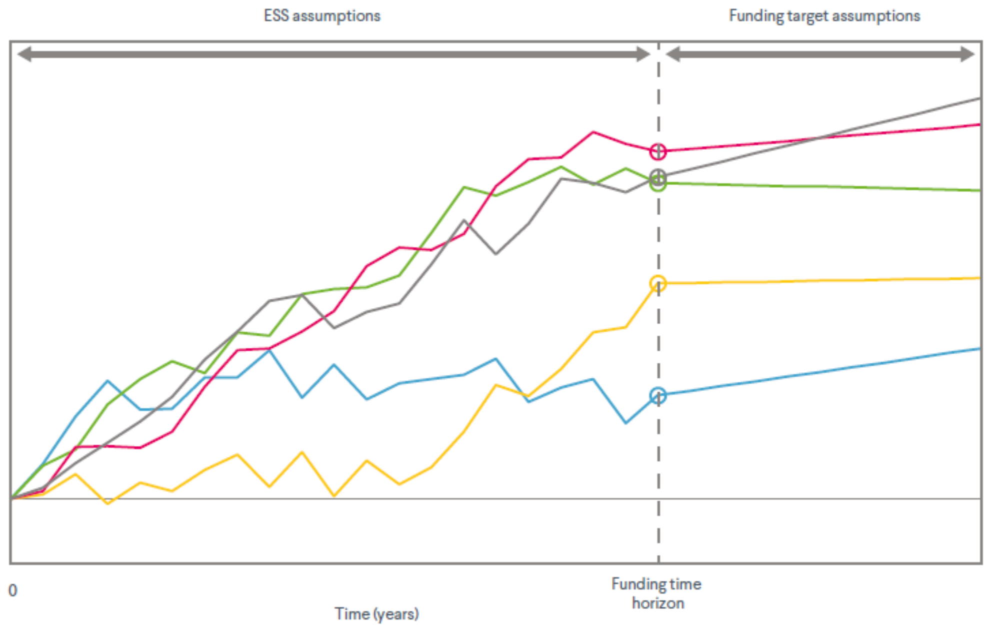
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions).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

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

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

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

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



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

E2 What assumptions are used in the ESS?

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

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

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

E3 What assumptions are used in the funding target?

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

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

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

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

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

E4 What other assumptions apply?

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

a) Salary growth

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

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

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

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

b) Pension increases

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

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

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

c) Life expectancy

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

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

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

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

d) General

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

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

Appendix F – Glossary

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

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

SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2022

Finance
Chief Executive
Draft- Pension Fund Committee - 17 March 2022

Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 22 June 2020

1. The statutory requirements concerning the SIP

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

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed[1]
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending[1]

1.2 The Statement must also explain the extent to which guidance issued by Scottish Ministers has been complied with. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.[1]

[1] *"Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)"*

2. Governance

2.1 Scottish Borders Council (the Council) is the Administering Authority for the Local the Scottish Borders Council Pension Fund (the Fund). The Fund is part of the Local Government Pension Scheme (LGPS.)

2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to any changes in fund managers, investment adviser or custodian.

2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.

2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.

2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.

2.6 The SIP forms part of a governance framework that includes:

- The Statutory Regulations
- The Pension Fund Committee
- The Pension Fund Investment & Performance Sub-Committee
- The Pension Board
- The Fund's Advisers
- The Funding Strategy Statement[22]

and

- The Governance Policy and Compliance Statement[2].

2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

[2] Funding Strategy Statement and Governance Policy and Compliance Statement can be found at www.scotborders.gov.uk/pensions

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

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

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

Funding Objectives

3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

- To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.

- To build up the required assets in a way that produces employer contributions, which are as stable as possible.

3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

4. Investment Policy

Investment Strategy

4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.

4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.

4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.

4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.

4.5 The Fund presently has a marginal negative cash flow and currently has less actively contributing members compared to members receiving pensions. It however also has 2,909 deferred members which are currently neither contributing nor receiving. The fund is a maturing fund and has reflected this in the investment strategy with a move towards a greater focus on income producing assets. The main focus of the fund however is to continues to seek capital growth to meet future liabilities.

4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who support the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.

4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.

4.8 The Committee undertook a full review exercise in June 2021, taking into account the funding status and liabilities and using asset liability modelling, following the 2020 triennial valuation. A further refinement was made to the strategic assets allocation in December 2021 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period.

4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

Investment Management Arrangements

4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Macquarie Investment Management, Partners Group, Blackrock, Permira, LGIM, IFM Investors and Baillie Gifford, as appropriate. The Fund also works in collaboration with Lothian Pension Fund for Infrastructure opportunities, investing with a number of specialist infrastructure Managers.

4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.

4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.

4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.

4.14 The Fund's overall return target is to generate, at a minimum, the real discount rate assumed in the actuarial valuation. As at 31 March 2020 this was 3.8%.

4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.

4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.

4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.

4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 30 January 2022.

Risk Measurement and Management

4.19 ***Asset Allocation***

- The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration matched index-linked government bonds, i.e. the most natural "matching" asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.

- In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities.

- Due to it's maturing position, and the 110% funding position, the Fund has reduced the "growth" assets towards income generating and indexed linked assets thereby reducing the volatility of asset returns and allowing a better match to the liabilities. Despite this evolving strategy the fund retains a significant element of its assets in equities, property and alternatives.

- The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.

- As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2021 by the Fund's investment consultant, it is envisaged that this will next be done during 2023/24 following the actuarial valuation as at 31 March 2023.

- The retrospective impact of investment risk on the Fund's funding position is monitored on a quarterly basis via investment reports prepared by the Fund's investment managers, the Fund's performance monitoring company and the investment consultants.

4.20 *Investment Managers*

- To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.

- The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or out performs their individual targets.

- The managers must also provide data to Isio, the company chosen by the Committee to provide it with independent performance comparisons.

- The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.

- The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month's notice.

- All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

4.21 *Proper Advice*

- The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

Investment Consultant	Isio
Actuaries	Hyman Robertson

4.22 Concentration Risk and Diversification

- Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund's assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.

- Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.

- This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

4.23 **Transition Management Arrangements**

- A specialist transition manager will be employed to manage complex changes in investment strategy and/or manager(s).

- The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

4.24 **Currency Risk**

- During 2016 the Committee approved the full removal of the Passive Currency Hedging mandate. As long term investors, the overseas currency exposure will act as an offset against losses in severely stressed market environments.

4.25 ***Safe Keeping of Assets***

- The services of a global custodian, Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.

- The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.

- The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.

- Investment in pooled funds managed by UBS, Morgan Stanley, M&G, Partners Group, Blackrock, Permira, Macquarie, LGIM, IFM Investors and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

4.26 **Cashflow Risk and Realisation of Investments/Liquidity**

- The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.

- 40% of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.

- 60% of the Fund's investments, in particular Property, debt, infrastructure and future investments in other alternative assets would take longer to be realised.

- Due to the mature nature of the Fund income generating assets, have increased to ensure funds are available to pay the Funds cash flow commitments. The cashflow of the Fund is reported on a quarterly basis to the Pension Fund Committee and monitored on a daily basis by Finance staff.

5. Types of Investment

5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, infrastructure debt, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions
- Infrastructure

5.2 In September 20219 the Pension Fund Committee authorised “Stock Lending” of its segregated equities within strict programme parameters administered by Northern Trust. The Fund also participate in stock lending within the pooled LGIM Equites which is administered by Citibank (LGIM’s custodian) and is indemnified by Citibank.

6. Environmental, Social and Corporate Governance Issues

6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.

6.2 The Committee has a responsibility to ensure the fund is undertaking its investment activities in a socially responsible way. This means the fund must be aware of its Environmental, Social and Governance (ESG) responsibilities.

6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund’s fiduciary responsibilities.

6.4 The Committee has approved a Statement of Responsible Investment which sets out:

- overarching principles the Fund requires its investment manages to adhere to
- delegates to the fund managers the selection and voting rights on behalf the fund
- monitoring of the compliance of fund managers against the statement.

6.5 The approved Statement of Responsible Investment is set out in Appendix 5

7. Audit responsibilities

7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team, and comes within the remit of the Council's Audit and Scrutiny Committee.

7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund, for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.

7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

8. Compliance with the Myners principles

8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.

8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles.*

8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.

8.4 The six principles are:

- Effective Decision Making
- Clear Objectives
- Risk and Liabilities
- Performance Assessment
- Responsible Ownership
- Transparency and Reporting

8.5 **Appendix 6** contains this statement of compliance.

Appendix 1

Pension Fund Investment and Performance Sub-Committee

The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment and Performance Sub-Committee:

1. Reviewing the Pension Fund’s Statement of Investment Principles.
2. Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
3. Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
4. Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
5. Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
6. Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund’s Risk Register.

Appendix 2

Pension Board

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

1. The Objectives of the Board are as follows:

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

   i Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;

   ii securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and

   iii such other matters as the regulations may specify .

2. The Board also has the remit to determine the areas they wish to consider including, amongst others:

   a) Reports produced for the Pension Fund Committee;
   b) Seek reports from the Scheme Manager on any aspect of the Fund;
   c) Monitor investments and the investment principles/strategy/guidance;
   d) The Annual Report and Accounts for the Fund;
   e) External voting and engagement provisions in relation to investments;
   f) Pension Fund Administrative Strategy and associated performance;
   g) Actuarial reports and valuations;
   h) Funding Strategy Statement and associated policy; and
   i) Any other matters that the Board deems appropriate within the responsibilities set out in 1 above.

Appendix 3

Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range/ Tolerance %
Active - UK Equity	Baillie Gifford	*4.0%*	
Active - Global Equity	Baillie Gifford	*13.0%*	
	Morgan Stanley	*13.0%*	
	Sub Total	**30.0%**	**24% - 36%**
Passive Equity	LGIM	**10%**	**8% - 12%**
Total Equity		**40.0%**	**32% - 48%**
Bonds			
Alpha Opportunities	M&G	*10.0%*	
Index Linked Gilts	M&G	*6.0%*	
	Total	**16.0%**	**12% - 17%**
Alternatives [2]			
Multi-Asset Alternatives Fund	LGT Partners	4.0%	
Direct Lending	Permira	5.0%	
	Partners Group	5.0%	
Infrastructure Equity		8.0%	
Infrastructure debt (junior)t	Macquarie	2.5%	
Infrastructure debt (senior)	Macquarie	5.0%	
	Total	**29.5%**	**24% - 36%**
Property			
Residential		2.5%	
Long Lease Property	Blackrock	12.0%	
	Total	**14.5%**	**12% - 17%**
Cash		0.0%	
Total		**100.0%**	

Note:

[1] This is a passive investment mandate which requires the FTSE All Share index to be tracked.

[2] Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

Appendix 4

Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used
Active UK Equity	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index
Active Global Equity	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Total return Index
Passive Equity Bonds	LGIM	Benchmark return		
Alpha Opportunities	M&G *	Benchmark Return	+3.5% - 5%%	1 Month LIBOR
Index Linked Gilts	M&G	Benchmark Return	+0.75%	UK Index Linked Gilts
Multi-Asset Alternatives Fund	LGT Partners	Benchmark Return	+4.0%	3 month LIBOR
	Permira	Benchmark Return	+4.0%	1 month LIBOR (Cash)
	Partners Group	Benchmark Return	+4.0%	1 month LIBOR (cash)
	Infrastructure		+3.5%	RPI
	Macquarie - Infrastructure debt (junior)	Benchmark Return	+4.5%	Euribor
	Macquarie Infrastructure debt (senior)	Benchmark Return	+2%-3%	LIBOR
	IFM Investors			
Property				
	Blackrock	Benchmark Return	+2.5%	RPI

Appendix 5

SCOTTISH BORDERS COUNCIL PENSION FUND

RESPONSIBLE INVESTMENT POLICY

Approved 16 Sept 2021

Scottish Borders Council Pension Fund
Statement of Responsible Investment

1. Introduction

This Statement of Responsible Investment ("the Policy") has been prepared by the Pension Committee ("the Committee") of the Scottish Borders Council Pension Fund ("the Fund"). The purpose of the Policy is to sit alongside the Statement of Investment Principles ("SIP"), formalising the Committee's Environmental, Social and Governance ("ESG") beliefs and its approach on how ESG factors should be integrated in investment decision-making. The Policy will be published on the Pension Funds website and be made available to Fund members upon request.

The Committee's overriding obligation is to act in the best interests of the Fund beneficiaries. In this fiduciary role the Committee believes that a positive approach to ESG issues can positively affect the financial performance of investments, whereas a failure to address these considerations can have a detrimental effect. In accordance with this fiduciary duty, the Committee believe it is imperative to act 'prudently, responsibly and honestly' and therefore consider both short term and long term risks when making investment decisions.

The Committee defines Responsible Investment ("RI") in line with the UN-backed Principle for Responsible Investing ("PRI"), which states that RI is an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.

2. Rationale for the Policy

The Fund is a large institutional investor, investing on behalf of its members. As part of the Committee's fiduciary duty, which includes a comprehensive approach to risk management, it has been recognised that ESG factors, including, but not limited to, climate change, can be financially material. The Committee recognises that there is a need for the Fund to be a long-term, responsible investor in order to achieve sustainable returns.

The Committee believes that they should be responsible stewards of the Fund's assets held on behalf of LGPS members and should consider the wider impacts of their investment decisions on the environment and society. Where possible, and in line with the beliefs set out in this Policy, positive ESG outcomes will be targeted within the Fund's investment portfolios.

3. Impact of the Policy on investment decision making

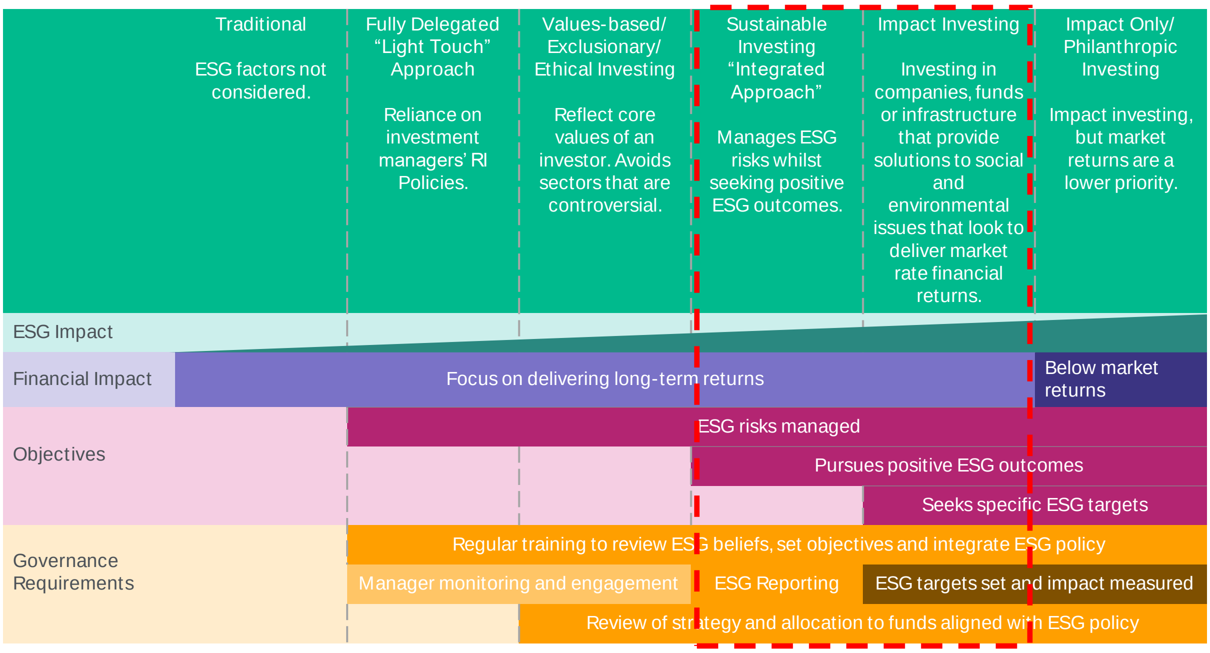
The Committee decides the Fund's investment strategy and asset allocation. This includes which asset classes the Fund should be invested in e.g. equity, credit, property and infrastructure. In making any portfolio construction decisions, the Committee will have regard for this Policy.

Within each asset class, the Committee delegates the day-to-day investment decision making to the investment managers – e.g. holding a bond issued by a particular company or exposure to a particular sector. In appointing and reviewing the Fund's investment managers, the Committee, with the assistance of the Fund's appointed advisors Isio, considers the manager's expertise, track record and stated policies and frameworks with respect to ESG related issues. Going forward, as part of the initial and ongoing due diligence of the Fund's investment managers, the Committee will assess and monitor their considerations of ESG factors and how these are incorporated into their investment decision making.

In addition, the Committee will consider opportunities that may arise from regulation on ESG factors or market dislocations and will receive training and updates periodically to update them on these trends and opportunities.

4. ESG approach

As per the spectrum of ESG approaches chart presented below, the Committee wishes to pursue a "sustainable" investment approach that integrates ESG risk analysis into investment decision-making, whilst pursuing certain "impact" opportunities that generate competitive financial returns, and whilst also providing positive and measurable environmental or societal benefits. The Committee's position is indicated on the spectrum chart below.



The Committee wishes to see the Fund's environmental foot-print minimised, its social responsibilities maximised, and the highest standards of employee relations and corporate governance maintained.

The Committee requires the Fund's investment managers to adhere to these standards in all their investments activities and plans to monitor how these standards are upheld for the following set of overarching principles.

5. Overarching Principles

Environmental

- The Fund will seek via its investment activities to minimise its impact on the environment. It will seek to ensure investments minimise any impact on pollution or climate change at a global and local level.
- Where investment activities do have a material impact on the environment, The Fund will encourage managers to work with companies to ensure they are acting in a responsible and sustainable way and are fully committed to ESG principles.

Social Responsibility

- The Fund wishes to ensure that managers invest in companies who adhere to all applicable laws and standards. The Fund wish to invest in companies who have good relations with the communities they are based and ensure that these companies uphold principles of non-discrimination, fairness and avoidance of human risks violations.
- In relation to employee relations, the Fund through its fund managers wishes to ensure that none of its investments use forced or direct child labour, that the highest safety standards are upheld for employees, and where applicable employees are able to join trade unions and engage in collective bargaining.
- The Fund will make every effort to comply with relevant regulations governing the protection of human rights, health and safety, the environment, and the labour and business practices of the jurisdictions in which it conducts business and consider these issues in the context of the Committee's Fiduciary duty to protect members' retirement benefits. The Fund will seek annual assurance from its managers that the Fund's assets are invested in a way which has met these standards.
- When companies are involved in certain controversial activities, the Fund may refrain from investment in those companies. For example, deciding to exclude companies which are involved in the direct production of controversial weapons.

Corporate Governance

- The Fund wants to ensure that all the investments adhere to the highest standards of ethical conduct and the opportunities for bribery, corruption or money laundering are minimised.
- The Fund wishes to ensure Executive Managers are remunerated and incentivise appropriately. The Fund will work through its fund managers to ensure that companies pay an appropriate share of their tax burden, in compliance with applicable law.

6. The Committee's ESG beliefs

Based on the principles outlined about, the Committee has formulated a set of ESG beliefs to help underpin overall investment decision making. The Committee's ESG beliefs have been summarised below.

Risk Management

i. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee.
ii. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, is likely to lead to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy where it is believed they can add value.
iii. The Committee will consider Council and other employer policies and values in the Fund's ESG policy

Approach/Framework

i. The Committee seeks to understand how investment managers integrate ESG considerations into their investment process and in their stewardship activities.
ii. The Committee believes that certain sectors that provide a positive impact, such as funds that support the climate transition, will outperform as countries transition onto more sustainable development paths. The Committee also requires all investment managers to declare and explain any holdings in companies which violate the UN Global Compact.

Voting & Engagement

i. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have a responsibility to engage with companies on ESG factors.
ii. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates.
iii. The Committee believes that engaging with managers is a more effective way to initiate change than by divesting and so will seek to communicate key ESG actions to its managers in the first instance. Divestment will however be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.

Reporting & Monitoring

i. ESG factors are dynamic and continually evolving, therefore the Committee will receive training, building on the experience already gained, as required to further develop their knowledge.
ii. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments.
iii. The Committee will set ESG targets based on their views and how key ESG metrics evolve over time.

Collaboration

i. Investment managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI, GRESB, TCFD and Stewardship Code.
ii. The Fund should sign up to a recognised ESG framework/s to collaborate with other investors on key issues.

7. Implementing the Policy

The Committee will implement the policy through the following steps:

i. The Committee will continue to develop their understanding of ESG factors through regular training on ESG and keep themselves up to date on the latest sustainable investment opportunities.
ii. The Committee's ESG beliefs will be formally reviewed biennially or more frequently if required by the Committee.

iii. The Committee will incorporate ESG criteria as part of new manager selection exercises, with explicit consideration of ESG factors for any segregated mandates. This includes an initial screening process to ensure all new managers adhere to and report on the United Nations PRI Code, GRESB and the Stewardship Code.
iv. The Committee, with support from Advisors, will undertake annual reviews of the investment managers' approach to integrating ESG factors.
v. Following the initial review, actions will be identified where investment managers are misaligned with the Committee's ESG beliefs.
vi. The investment managers' stewardship and engagement activities will be monitored on an ongoing basis and the Committee will seek to understand the effectiveness of these activities.

The Fund believes that signature and adherence to the PRI codes provides an appropriate starting point for demonstrating that they comply and believe in these principles. The Fund will encourage its Fund managers to monitor the performance of companies which they are investing on the Fund's behalf to comply with these principles and require an annual statement from its managers demonstrating how its investments meet these principles.

The Fund expects its managers to vote at all times in the best interest of the Fund and in compliance with its ESG principles. The Fund supports the principles set out in the UK Stewardship code and will publish a statement of adherence to this code annually. The Fund will require its fund managers to provide copies of their statements to the stewardship code and will monitor their compliance with its principles.

8. Monitoring and reviewing the Policy

The Committee will monitor the Fund's assets against this Policy on an ongoing basis, with the assistance of Isio. The Committee views the development of the Policy as an ongoing process as approaches to integrating ESG factors continue to evolve over time. When reviewing the Policy, the Committee will take account of any significant developments in the market to ensure they are taking a best practice approach.

Appendix – The UN-backed Principles for Responsible Investment ("PRI")? (Source: www.unpri.org)

The PRI is a proponent of responsible investment.

The PRI aims to understand the investment implications of ESG factors and helps support its international network of signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI is truly independent. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations. The PRI provide education, training and research on how ESG factors can be incorporated in investment decisions.

What are the six UN-backed Principles for Responsible Investment?

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

What are Environmental, Social and Governance ("ESG") factors?

Examples of ESG factors include:

- Environmental
    - Climate change
    - Resource depletion, including water
    - Waste and pollution
    - Deforestation
- Social
    - Working conditions, including slavery and child labour
    - Local communities, including indigenous communities
    - Conflict
    - Health and safety
    - Employee relations and diversity
- Governance
    - Executive pay
    - Bribery and corruption
    - Political lobbying and donations
    - Board diversity and structure
    - Tax strategy.

Appendix 6

Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund's current status in relation to compliance .

Principle	Best Practice Guidance	Fund's Current Status
1. Effective Decision-Making Administering authorities should ensure that: • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	• The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity. • The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified. • The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making. • There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions.	**Full Compliance** • The Fund has a designated committee – the Committee - with the experience and skills to take decisions. • The Committee's terms of reference is contained within the Scheme of Administration for the Council. • The Committee receives training either during meetings or at specific training sessions, including on investment issues. • Induction training is provided for new Members and Officers. • All new members required to complete The Pension Regulator trustee toolkit within 6 months of joining • The Committee has an appointed investment consultant to provide specific investment advice. • The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee

Principle	Best Practice Guidance	Fund's Current Status
1. Effective Decision-Making (contd.)	• It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.	• The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making.
	• The committee should obtain proper advice at reasonable intervals from suitably qualified persons.	• The Committee carry out regular reviews of the Fund and compliance with regulations. • The Investment Consultant, Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee. • The Committee's legal advisers and any other relevant parties review any new investment contracts put in place.
	• The Chief Financial Officer should be given responsibility for developing a training plan for committee members.	• There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members. • Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer
	• A business plan should be in place which should include milestones and should review level of resources needed.	• A 3 year business plan was agreed by the Committee annually and is monitored regularly.
	• Members allowances should be published and reviewed regularly.	• Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007.
	• Meeting papers should be clear and circulated sufficiently in advance of the meetings.	• Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site.

Principle	Best Practice Guidance	Fund's Current Status
2. Clear Objectives • An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	• The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities. • The desirability of asset liability modelling should be considered. • Proper advice should be taken where appropriate. • Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return. • Peer group benchmarks should be avoided.	**Full compliance** • The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers to inform the Investment Strategy. • The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the Committee set the investment managers individual mandate objectives and risk parameters. • An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation. • Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices.
2. Clear Objectives (contd)	• Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available.	• The Committee regularly reviews the investment structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the

Principle	Best Practice Guidance	Fund's Current Status
	• Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention. • The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established. • Transaction and transition costs should be fully understood.	appointment of managers which includes a review of cost, objectives and mandates (including risk). • The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio. • At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers. • When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored. • As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.

Principle	Best Practice Guidance	Fund's Current Status
3. Risk and Liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	• The committee should have a clear policy on willingness to accept underperformance due to market conditions. • Acceptable tolerances from market index benchmarks returns should be stated. • Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices.	**Full compliance** • The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy. • Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors.
	• Overall fund objectives should be expressed in terms which relate to the liabilities. • The committee must receive an assessment of the risks associated with their liabilities, valuation and management.	• The overall Fund investment objective is expressed in terms which relate to the liabilities. • The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. A further review was undertaken in 2018 following the 2017 Actuarial valuation..
	• The annual report should include an overall risk assessment.	• The annual report includes a Risk Management Statement

Principle	Best Practice Guidance	Fund's Current Status
3. Risk and Liabilities (contd)	• The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer. • The committee should ensure the investment strategy is consistent with the scheme employers ability to pay.	• The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls. • The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay.

Principle	Best Practice Guidance	Fund's Current Status
4. Performance Assessment • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	***Investments*** • The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls. • The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales. • Constraints on active managers should not be overly narrow or overly wide.	**Full compliance** • The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. • Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. • The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods.

Principle	Best Practice Guidance	Fund's Current Status
	• Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods.	• The performance of the investment managers is measured quarterly by an independent performance monitoring company. • A comprehensive quarterly performance report is presented to the Committee.
	• Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency.	• Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports.
	Advisers	
	• Assessment should take account of the extent of decisions delegated.	• The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations.
	• A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors.	• Factors such as past performance and price are taken into account when re-tendering for external advisers.
	Decision making bodies	
	• The committee's self assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report.	• Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for.

Principle	Best Practice Guidance	Fund's Current Status
5. Responsible Ownership Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, • includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities.	• Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report. • The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers. • The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. • The committee should ensure its policies are not overridden by an investment manager's general policies. • The committee should ensure that investment consultants adopt the Institutional Share-holder Committee's (ISC) Statement of Practice relating to consultants.	**Full compliance** • The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents. • The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund. • The Statement of Responsible Investments states the Committee's policy on responsible ownership. • Voting on underlying shareholdings is delegated to the fund manager. • Details of the investment manager's house strategy are requested from the manager. • Feedback on interventions to be provided during meeting with manager (minimum of once per annum). • The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.

	• The ISC's Statement of Principles on the responsibilities of Institutional shareholders should be noted.	

Principle	Best Practice Guidance	Fund's Current Status
6. Transparency and Reporting Administering authorities should: • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and • provide regular communication to scheme members in the form they consider most appropriate.	Reporting ensures that: • An integrated approach to governance should be built and governance compliance statements should be maintained regularly. • The Fund's communication statement must set out the policy on the provision of information, the format and the promotion of the scheme. • Examples of good communication from other funds should be sought. • Annual report content should be compared to the regulations. • Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information. • The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance. • The committee should know its stakeholders and the interests they have.	**Full compliance** • The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year. • Examples of good communication from other funds are sought. • Communications are sent to members whenever important changes to the Fund take place, or to provide updates. • The Fund operates transparently and enhances accountability to scheme members. • The Fund's Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance. • The Fund post all communications, policy documents and consultations on website www.scottishborderscouncilpensionfund.org

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley,in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley
Draft 2017 1.0	Final draft of SIP to present to Pension Fund Committee on 22 June 2017	June 2017	K Robb
Draft 2019 1.0	Final draft of SIP to present to Pension Fund Committee on 6 June 2019	June 2019	K Robb
Draft 2020	Final draft of SIP to present to Pension Fund Committee on 6 June 2020	June 2020	K Robb
Draft 2022	Final draft of SIP to present to Pension Fund Committee on 17 March 22	March 22	K Robb

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RISK REGISTER UPDATE

Report by Director Finance & Corporate Governance

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

17 March 2022

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 updates on the actions were presented on 16 September 2021 and 14 December 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 It should be noted that international tensions caused by the conflict between Russian and Ukraine may have an effect on both UK inflation and the performance of global investment markets. The Fund is not directly invested in either Russian or Ukraine but due to the interconnected global nature of companies, the Fund may still be affected. Increasing inflation will have a direct effect on the Fund's liabilities. Officers are working with the Fund's managers to assess and monitor the effect on the Fund of the conflict in Ukraine, and should any material effects impacts on the Pension Fund be identified these will be captured in future iterations of the risk register along with any mitigating actions.

1.6 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 a full risk review being undertaken and presented to the Committee in June 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
RED	High –Risk Score Range 15-25
AMBER	Medium – Risk Score Range 6 – 12
GREEN	Low – Risk Score Range 1 - 5

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

Quarterly
- Quarterly Investment Performance Report;
- Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;
- Update on progress of risk management action delivery.

Bi-Annually
- Mid-Year Progress report on Business Plan Actions;
- Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;
- Update on progress of risk management action delivery.

Annually
- Annual Governance Meeting with Annual Report and Policy/Strategy Performance Reports;
- Annual reporting on progress with Business Plan and approval of updated Business Plan;
- Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks.

4 RISK REGISTER UPDATE

4.1 A full risk workshop was undertaken on 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 updates on the actions were presented on 16 September 2021 and 14 December 2021.

4.2 The progress of the individual management actions identified in the current risk register is detailed in Appendix 1.

4.3 Political international tensions caused by the escalating conflict between Russian and Ukraine may have an effect on both inflation and markets. The Fund is not directly invested in either Russian or Ukraine but due to the global nature of companies the Fund may still be effected. Increasing inflation will have a direct effect on the Funds liabilities. Officers are working with fund managers to assess and monitor the effect on the Fund.

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

5.4 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 of 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 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 14December 2021

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APPENDIX 1

Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls: Current Controls	Controls: Control Assessment	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score	Progress: Actions as at 17/03/22
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/ Dir Finance & Corp Gov	Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role TREAT Ongoing training for elected members of the Pension Board and Committee	Effective	4	2	8	Training plan for 2021/22 approved 10/6/21 based on skills and knowledge assessment. All members have met 21/22 requirements
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/ Dir Finance & Corp Gov	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. The valuation will trigger assessment of the Investment strategy. TREAT - Undertake a full investment strategy review	Effective	2	2	4	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/ Dir Finance & Corp Gov	Responsible Investment Policy in place and monitored. Only invest with Fund Managers who have strong ESG credentials. TREAT Review Responsible Investment Policy to set clearer Climate Change Strategy	Partially Effective	3	3	9	Revised Policy approved at Committee 16/9/21, workshop held on 28 Feb 22 to refine and agree metrics. Paper on agenda
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/ Dir Finance & Corp Gov	Full actuarial valuation undertaken on Triennial basis, 2020 valuation commenced; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA, CGI & SOSE to reflect employer situations; Annual declaration made by each Employer for forth coming changes Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. TREAT Monitoring of implementation of 2020 valuation rates	Effective	2	2	4	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 Controls	Controls: Control Assessment	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score	Progress: Actions as at 17/03/22
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/ Dir Finance & Corp Gov	Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey and CGI, and Council agreement in place for Live Borders; Guarantee in place with SG for SOSE; Contribution rates based on open/closed status of employer; Updated Admission Agreement and formal consideration of support at initial set up now implemented; Movement to closed scheme requires actuarial review, results then implemented. Funding Strategy Statement revised to include cessation responsibilities TREAT- Undertake review of admission agreements	Effective	3	2	6	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	Dir Fin & Corp Gov/ Dir People, Perform & Change	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year. TREAT; undertake review of admission agreements and guarantees	Partial Effective	2	5	10	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/ Dir Finance & Corp Gov	Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board TREAT - annual monitoring and reporting undertaken	Effective	3	3	9	Training plan for 2021/22 approved 10/6/21 based on skills and knowledge assessment. All members have met the 21/22 training requirement levels
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	Dir Fin & Corp Gov/ Dir People, Perform & Change	Use of External Advisers provides additional resilience and resources; Competency appraisal process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Procedural notes completed Regular engagement with external Investment Managers to supplement knowledge. TREAT - Improvement in quality of procedure notes for officers. Annual review of Competency Framework for all staff	Partially Effective	2	3	6	Continual review of processes and procedural notes to ensure they are compliant with regulations and system requirements (Altair and Business World). Competency Framework implemented for all staff along with new appraisal process

APPENDIX 1

Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls: Current Controls	Controls: Control Assessment	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score	Progress: Actions as at 17/03/22
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	Dir Fin & Corp Gov/ Dir People, Perform & Change	Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC; Monitoring will be undertaken during the year and reported to Members as part of the annual report. With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct (FCA) regulated adviser, includes signed declaration by individual; Continue to monitor ongoing legislation around this area. Communication Strategy agreed and website launched TREAT - Review and watch to be placed on advice and guidance issued from The Pension Regulator and Government.	Effective	2	2	4	Continue to monitor advice and information from The Pension Regulator and Government bodies.
5.3	Administrative	Failure to provide pensions administration service due to major operational disruption could lead to inability to provide a high quality pension service to members	Loss of main office; Computer system; Staff absence.	Ability to process payments on time; Financial distress to members; Reputational risk.	Ongoing	HR Shared Services Manager	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. Pensions Administration System is hosted system, along with Windows 10 provides improved ability for homeworking; TREAT - in line with core HR risk review full business continuity review to be undertaken.	Effective	2	3	6	Work to commence on business continuity review with Altair a fully hosted solution. Data centre maintenance is carried out by the system provider on a monthly basis.
5.4	Administrative	Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds.	Lack of monitoring; Lack of segregation of duties.	Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members.	Ongoing	HR Shared Services Manager	Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk. TREAT - to request from each External Employers audited accounts to provide assurance on their internal controls	Effective	2	2	4	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. TREAT - 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 Controls	Controls: Control Assessment	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score	Progress: Actions as at 17/03/22
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	Dir Fin & Corp Gov/ Dir People, Perform & Change	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board; TREAT Seek to input into any of the legislative change through active membership of COSLA;	Partially Effective	4	4	16	Responding to all consultations and participating in all national groups. Director Finance & Corporate Governance is 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	Dir Finance & Corp Gov	Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via Appraisal and attendance at appropriate training events. TREAT - Annual review of Competency Framework to all staff	Effective	2	2	4	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 pooled	Ongoing	Dir Finance & Corp Gov	Monitoring of political position via Scheme Advisory Board TREAT - Actively engage with Scheme Advisory Board and consultants undertaking review	Partially Effective	3	4	12	Minutes of SAB tabled as meetings for information when available
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	Dir Fin & Corp Gov/ Dir People, Perform & Change	Hosted environment for pension admin Monitored and regularly improved firewalls security installed on all hardware IT contractual requirements for all IT providers TREAT Continue engagement with IT providers, introduce annual assurance from providers of cyber security policy and adherence	Partially Effective	5	2	10	Cyder security report has been provided by Aquilla Heywood, Hymans Robertson and 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	Dir Fin & Corp Gov/ Dir People, Perform & Change	Identify requirements of external advisers and appoint appropriately. Annual review undertaken with Investment Advisor and Custodian. TREAT - Undertake annual review of Adviser;	Effective	2	2	4	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	Dir Finance & Corp Gov	Training provided to Members and Officers on their roles and fiduciary responsibility; Monitoring on quarterly basis of Segregated Portfolios voting policy contained with Statement of Investment Principles including support for UNPRI. Responsible Investment policy approved and annual monitoring report completed TREAT - ESG workshop to be held prior to reviewing Responsible Investment Policy	Partially Effective	2	2	4	Revised Policy approved at Committee 16/9/21, workshop held on 28 Feb 22 to refine and agree metrics. Paper on agenda

PENSION FUND BUDGET MONITORING TO 31 December2021

Report by Director Finance & Corporate Governance

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

17 March 2022

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 31 December 2021 including projections to 31 March 2022 and the proposed budget for 2022/23.**

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 31 December 2021 is £0.785m with a projected total expenditure of £7.160m against a budget of £7.147m. This projects a budget variance of £13k which represents the workshop and questionnaire to allow the Fund to agree ESG objectives and thus further enchance its ESG governance.

1.5 The proposed budget for 2022/23 is £7.288m and includes allowances for work required for McCloud and new costs for ESG objective measurement and TCFD reporting requirements

1.6 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 it 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 31 December 2021;

(b) Agrees the projected out-turn as the revised budget; and

(c) Notes the cashflow position; and

(d) Agrees the proposed budget for 2022/23

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 31 Dec 2021, projected out-turn to 31 March 2022 and current approved budget for 2021/22.

	Expenditure 31 Dec 21 £000's	Projected 31 March 22 £000's	2021/22 Budget £000's	2021/22 Variance £000's	2022/23 Budget £000's
Investment Management	364	6,420	6,420	-	6,564
Administration	269	381	381	-	407
Oversight & Governance	152	359	346	13	325
Total	**785**	**7,160**	**7,147**	**13**	**7,296**

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 third quarters investment management fees are not therefore included in the expenditure to 31 December 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 budget for 2022/23 investment manager fees is based on the current managers with full implementation of the approved strategic asset allocation.

4.5 The budget for 2022/23 for Administration includes an allowance for work required for both McCloud and a possible class action.

4.6 The additional £13k for oversight and governance represent work required for the setting of the Funds ESG objectives, via the questionnaire and workshop held on 28th February. The output from this a key step towards ensuring the Fund is able to meet the reporting requirements for Task Force on Climate Related Financial Disclosures (TCFD) which the fund will be required to undertake by 2024 and will also provide key evidence for the 2022 submission to FRC for the Stewardship Code. The agreed objectives and monitoring of these will enhance the Funds overall ESG governance.

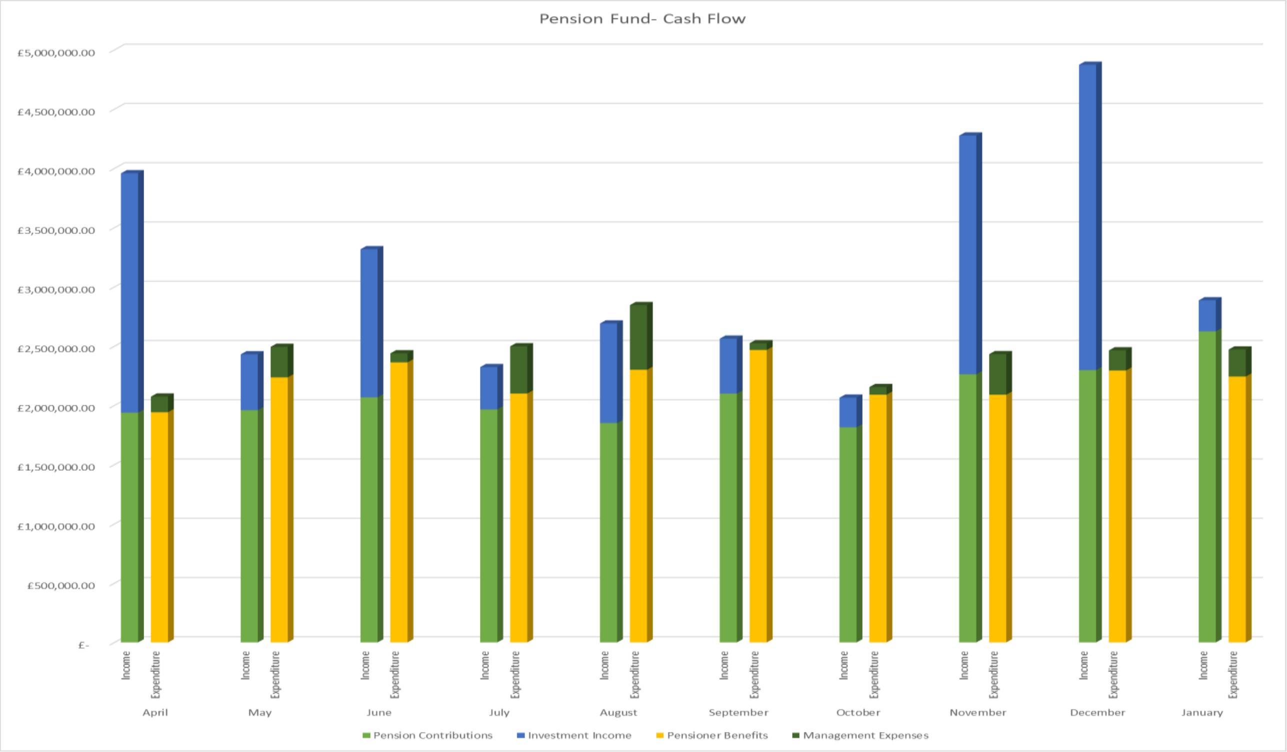
4.7 The budget for 2022/23 Oversight and Governance costs includes the TCFD reporting requirements and measurement of the Funds ESG objectives.

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 10 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 graph above shows some months with surplus income and others with deficits. However over the 10 month period shown the total cash income received was £31.4m, cash expenditure was £24.4m, resulting in a cash surplus of £7m over the period. This surplus has been utilised in part to fund draw down notices from the Infrastructure managers.

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

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

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

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 and Pension Fund Board 14 Dec 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

Scottish Borders Council Pension Fund

Annual Audit Plan 2021/22

Prepared for Scottish Borders Council as the administering authority for the Pension Fund

March 2022

Contents

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Scottish Borders Council Pension Fund (the Fund). The main elements of our work include:

- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- an audit of the annual accounts and the provision of an Independent Auditor's Report which includes an opinion on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit

Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the Fund promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Pension Fund Committee and the Council's Audit and Scrutiny Committee and actively participate in discussions.

Respective responsibilities of the auditor and the Fund

5. The Code of Audit Practice (2016) sets out in detail the respective responsibilities of the auditor and the Fund. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the Fund to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

The Fund's responsibilities

8. The Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the Fund has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in Exhibit 1. The materiality values for the Fund are set out in Exhibit 1.

Exhibit 1
2021/22 Materiality levels for the Fund

Materiality	
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross assets based on the latest investment adviser reports for assets valued as at 30 September 2021 for 31 March 2022.	£9.1 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 65% of planning materiality.	£5.9 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000

Source: Audit Scotland

Lower specific materiality levels for the 2021/22 audit

13. In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

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

Exhibit 2
2021/22 Lower specific materiality levels for the Fund

Materiality	
Specific materiality – It has been set at 10% of benefits paid for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£2.5 million
Specific performance materiality – Using our professional judgement, we have calculated specific performance materiality at 60% of the specific materiality.	£1.5 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the Fund, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. Exhibit 3 summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 3

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by the management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Owing to the nature of this risk, assurances from management are not applicable.	• Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Focussed testing of accounting accruals and prepayments.
2. Estimations applied to level 3 investments The pension fund has a significant portfolio of level 3 investments, for example unquoted equities, where valuations involve the application of a	Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed	• Confirmation of year end valuations to valuation reports and/or other supporting documentation. • We will review user entity controls in relation to the use of service organisations. • Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk. • Review the arrangements in place at the Fund to assess investment managers' governance arrangements.

Significant risk of material misstatement	Sources of assurance	Planned audit response
variety of estimates in determining appropriate valuations. This subjectivity gives rise to a significant risk of material misstatement in the financial statements.	professional, accounting and industry codes and guidelines.	• Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to acknowledge the areas of major sources of estimation and uncertainty with regards to level 3 assets.

Source: Audit Scotland

17. As set out in International Standard on Auditing (UK) 240*: The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Fund because whilst the possibility of fraud exists, we do not judge it to be a significant risk due to the nature of the Fund's income streams.

18. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this presumed risk in 2021/22 because, whilst the possibility of fraud exists, we do not judge it to be a significant risk due to the nature of the expenditure at the Fund.

19. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

20. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

21. The areas of specific audit focus are:

- Estimations applied to the actuarial valuation: The actuarial valuation depends on a range of financial and demographic estimations about the future. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.

- Valuation of level 1 and level 2 assets: Investments held by the Pension Fund are subject to market price fluctuations and a degree of estimation. The Pension Fund holds material level 1(where valuation derived directly from unadjusted quoted active market price) and level 2(where the instrument is traded in a market not considered to be active or where the fair value is determined using valuation techniques based on market prices). Due to the material amounts and in particular, the degree of subjectivity and complexity in the valuation of level 2, this gives rise to a risk of material misstatement in the financial statements.

Audit risk assessment process

22. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions

Introduction

23. The Code of Audit Practice sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

24. The four dimensions that frame our audit work are shown in Exhibit 4.

Exhibit 4
Audit dimensions

Source: Code of Audit Practice

25. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the

medium/longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Audit dimension risks

26. We have not identified any significant audit dimension risks.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

27. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in Exhibit 5, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

28. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

29. We will provide an independent auditor's report to the Fund and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Fund and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

30. Exhibit 5 outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 5
2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2022	17 March 2022
Independent Auditor's Report	31 October 2022	To be confirmed
Annual Audit Report	31 October 2022	To be confirmed

Source: Audit Scotland

Timetable

31. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at Exhibit 6 that has been discussed with management.

32. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

33. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6
Proposed annual accounts timetable

Key stage	Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	29 June 2022
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2022
Latest date for final clearance meeting with management	To be confirmed
Issue of Letter of Representation and proposed Independent Auditor's Report	To be confirmed
Agreement of audited and unsigned annual accounts	To be confirmed
Issue of Annual Audit Report to those charged with governance.	To be confirmed
Signed Independent Auditor's Report	To be confirmed

Source: Audit Scotland

Audit fee

34. The proposed audit fee for the 2021/22 audit of the Fund is £22,110 (2020/21: £21,510). In determining the audit fee, we have taken account of the risk exposure of the Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

35. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

36. International standards on Auditing (UK) 610: *Considering the work of internal audit r*equires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

37. From our initial review of the internal audit plans, we do not plan to use the work of internal audit for our financial statements' responsibilities. We will however take account of internal audit's findings to inform our wider Code responsibilities.

Independence and objectivity

38. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

39. The engagement lead (i.e. appointed auditor) for the Fund is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Fund.

Quality control

40. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

41. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

42. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Scottish Borders Council Pension Fund

Annual Audit Plan 2021/22

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www.audit-scotland.gov.uk/accessibility

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RESPONSIBLE INVESTMENT – OBJECTIVE AND METRICS SETTING

Report by Director, Finance & Corporate Governance

JOINT PENSION FUND COMMITTEE & PENSION BOARD

17 March 2022

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is seek approval for the responsible investment objective and metrics for the Pension Fund in line with the Fund's 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.

1.3 The Committee and Board, to ensure these fiduciary duties are met, and in line with good practice, approved a revised Responsible Investment Policy on 16 September 2021. The revised policy stated the Committee would seek to monitor key ESG metrics and look to set targets based on their views and how key metrics evolve over time.

1.4 To take forward this action a survey was undertaken with all Committee and Board members to identify the key priorities areas with the UN Sustainable Development Goals (SDG's). The results from the survey were used as the basis of a workshop on 28 February 2022. The results of the survey can be found on page 20 of the Appendix to this report.

1.5 The workshop highlighted challenges around the availability of data to allow some of the SDG's to be measure in a reliable and robust way. Due to existing reporting requirements the Task Force for Climate Related Financial Disclosure (TCFD) and Paris Aligned SDG's relating to climate are the most developed.

1.6 The workshop agreed 6 key SDG's as priorities. These are SDG 13 – Climate Change, SDG 7 – Affordable & Clean Energy, SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities.

1.7 Due to development and current availability of data it is proposed SDG13 Climate change and SDG 7 Affordable & clean energy are taken forward with fund managers as an initial priority. This will allow a baseline position to be established prior to targets being set.

1.8 The social SDGs SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities are currently not able to be measured due to poor data availability. It is proposed the Fund monitors on an annual basis the improvements to data to enable future objective setting and monitoring.

2 STATUS OF REPORT

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

3 RECOMMENDATIONS

3.1 It is recommended that the Pension Fund Committee :

(a) Approve SDG 13 – Climate Change, SDG 7 – Affordable & Clean Energy, SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities, as the key responsible investment objectives of the Fund;

(b) Notes the output of the survey and workshop on 28 February;

(c) Approves work now be commenced with fund managers on the assessment and collection of data for SDG13 Climate change and SDG 7 Affordable & clean energy;

(d) Notes further reports will be presented to Committee on the results of this exercise to allow targets to agreed; and,

(e) Notes an annual review will be undertaken on the progress of development of further information to allow SDG's SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities to be progressed a as quickly as practicable.

4 BACKGROUND

4.1 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.

4.2 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.

4.3 The Committee approved the first Responsible Investment Policy on 30 November 2018. A reviewed and revised policy was approved on 16th September 2021 The revised policy stated the Committee would seek to monitor key ESG metrics and would look to set targets based on their views and how key metrics will evolve over time.

4.4 The policy also recognised that the increased levels of reporting and monitoring Pension Funds are required to undertake is increasing. The Stewardship Code and TCFD which the Fund will also be required to adhere to, both have extensive monitoring and reporting requirements.

5 RESPONSIBLE INVESTMENT OBJECTIVE & METRIC SETTING

5.1 The Committee fully supports all the UN Sustainable Development Goals (SDG's). However it acknowledges the information and data for some goals are not yet available in a form that would allow the Fund to set meaningful targets or undertake any robust measurement of their achievement.

5.2 To allow the Fund to priorities its objectives and set meaningful metrics the Fund, Isio the Fund's investment advisor, undertook a survey of all Committee and Board members to gather data on their key priorities. This information was collated and present at a workshop on 28th February 2022. The full result of the survey can be found on page 20 of the Appendix to this report.

5.3 The data gathered and the discussions subsequently held at the workshop highlighted the lack for information or robust data for some of the SDG's. It also highlighted work which is currently ongoing within the investment world on the development of systems and methods to allow data to be collected in a way that will allow the production of robust, reliable and comparable data.

5.4 The output from the workshop is a recommendation for the Fund to prioritise 6 key objectives. The first two are Environmental objectives and the remaining 4 are Social objectives. These are listed below

- SDG 13 – Climate Change
- SDG 7 – Affordable & Clean Energy
- SDG 1 – No Poverty
- SDG 2 – Zero Hunger
- SDG 3 – Good Health & Well-being
- SDG 10 – Reduce Inequalities

5.5 Due to the requirements for Managers and Funds to undertake reporting to Task Force on Climate Related Financial Disclosures (TCFD) and the Paris Aligned Investment Initiative, much work has previously been undertaken around the development of measurable data for climate reporting. SDG 7 (Climate Change) and SDG 13 (Affordable & Clean Energy) both align to the goals of TCFD and Paris Aligned. It is therefore proposed these two measures are taken forward initially with requests to all fund managers to allow assessment of data availability and provide a base line position for the Pension Fund. Progress and information will be reported to Committee to allow targets to be agreed at a future meeting.

5.6 Data availability for non-climate metrics is currently very poor. It is proposed therefor for SDG's 1 (No Poverty), 2 (Zero Hunger), 3 (Good Health & Well-being) and 10 (Reduce Inequalities) the Fund actively engages with its managers to improve data and continues to reassess the ability to set key metrics for each of these metrics on an annual basis.

5.7 The attached Appendix details the key areas of discussion and full detail of the rational for the recommendations.

6 IMPLICATIONS

6.1 Financial

The additional requirements, improvements and development for reporting and monitoring will require external assistance. The costs are estimated at £12,500 for 2021/22 and £33,450 for 2022/23. These costs have been included in the budget for 2021/22 and 2022/23.

6.2 Risk and Mitigations

The Responsible Investment Policy and monitoring process will ensure the Fund meets its fiduciary duties to ensure it has appropriate regards to ESG responsibilities in its investment decisions.

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 doing so, signifies that equality, diversity and socio –economic factors have duly been considered when preparing this report.

6.4 Sustainable Development Goals

The recommendations of this report, per the Funds Responsible Investment Policy, will further strengthen the Fund's commitment to sustainable investment.

6.5 Climate Change

The recommendations of this report, per the Fund's Responsible Investment Policy, will further strengthen the Funds commitment to reducing climate change. Although no direct impact on climate change the policy continues the commitment to encourage Managers and Companies invested in to ensure the environmental impact of their operations are considered and to 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**
No changes to the Scheme of Administration of Scheme of Delegation are required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), the Clerk to the Council and Corporate Communications are being consulted and any comments received will be reported at the meeting.

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:
Previous Minute Reference: Pension Fund Committee and Pension Board 16 September

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

Scottish Borders Council Pension Fund

Setting ESG Objectives and Metrics Recommendation

March 2022

isio.

Document Classification: Confidential

Introduction and background

Addressee

- This report is addressed to the Scottish Borders Council ("the Council") as the Administering Authority of the Scottish Borders Council Pension Fund ("the Fund").
- It summarises the recommendation to the Pension Committee ("the Committee") in relation to setting key ESG objectives for the Fund, and also recommends appropriate ESG metrics to monitor and report on which are aligned to these key objectives. Finally, the report considers a reporting framework to monitor the Fund's investment managers against.
- This is a developing area and the Fund's position should be reassessed and refreshed as data improves and evolves over time.

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Why monitor ESG metrics?

- We believe it is important to monitor ESG metrics for the Fund as:
  - The Committee's ESG policy states that "The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments".
  - The introduction of TCFD for LGPS is likely to mean the Fund is required to monitor relevant metrics, including greenhouse gas emissions in due course.
  - It is aligned with market best practice and the requirements of the UK Stewardship Code 2020, which we understand the Fund is targeting.
  - It will provide data on key ESG risks and enable the Fund to engage with its investment managers more effectively to meaningfully drive positive change.

Governance process

- In order to arrive at the recommendation outlined in this report the Officers, the Committee, and members of the Local Pensions Board ("the Board") attended a workshop on 28 February hosted by the Fund's investment advisor, Isio. The topic of this workshop was " Setting ESG Objectives and Metrics".
- At the session relevant background material was presented and discussed, and the proposal set out in this report was debated. The material from this workshop is set out in the appendix to this report.
- In addition to this, the Fund's officers have also been considering the regulatory requirements for the Fund to align to TCFD and the desire to become a signatory to the UK Stewardship Code 2020. This has also shaped the recommendations outlined.
- At the workshop those present were able to reach firm agreement on the recommendation put forward. This paper outlines that recommendation.

How to develop an ESG monitoring framework

- The Committee should agree on the key focus areas - using the UN Sustainable Development Goals provides a useful starting point to identify key priorities.
- Specific metrics aligned with the Committee's beliefs can then be developed over time as reporting and data improves and evolves.
- The Committee should monitor the chosen ESG metrics over time and look for an improved position across the portfolio.
- The Committee should agree a timeframe to revisit the framework.

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Summary of the Committee's SDG priorities

(grey)	No current investment opportunities
(yellow)	Lower ranking
(green)	Higher ranking

- A SDG questionnaire was used to gather the Committee's views around the priority and reputational risk of the SDGs to the Fund - scored from 1 (highest priority) – 10 (lowest priority)
- 11 responses were received (out of a possible 16) with 7 clear SDG priorities agreed on.
- Initial indications suggest #13 climate action is considered a high priority, alongside other environmental goals such as #6 clean water and sanitation and #7 affordable & clean energy.
- Alongside this, 4 socially focused goals were highlighted as high priority, these were, #1 no poverty, #2 zero hunger,#3 good health & well-being and #10 reduced inequalities.
- This provided a good insight ahead of the workshop and facilitated discussion ahead of drawing final conclusions.

UN SDG	Avg.	# of responses	Rank*
1. No Poverty	5.5	8	7
2. Zero Hunger	3.0	7	1
3. Good Health & Well-being	3.3	7	2
4. Quality Education	6.0	8	9
5. Gender Equality	8.0	3	15
6. Clean Water & Sanitation	4.4	9	3
7. Affordable & Clean Energy	4.6	10	5
8. Decent Work & Economic Growth	4.5	8	4
9. Industry Innovation & Infrastructure	6.1	7	10
10. Reduced Inequalities	5.7	3	8
11. Sustainable Cities & Communities	10	1	16
12. Responsible Consumption & Production	7.0	5	14
13. Climate Action	5.3	10	6
14. Life Below Water	6.6	7	12
15. Life on Land	6.9	8	13
16. Peace, Justice & Strong Jurisdictions	6.2	6	11
17. Partnership for the Goals	-	-	17

* Rank is based on average score

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Recommendation (1)

UN SDG	Climate Action (#13)	Affordable & Clean Energy (#7)
Outcome/Objective	• Reduce climate risk in the portfolio • Net zero target by 2050	• Ensure access to affordable, reliable, and sustainable energy • Prepare portfolio for future transitions toward renewable energy sources
Metrics (TCFD regulation requires two greenhouse gas (GHG) metrics and one non GHG metric)	• Scope 1 and 2 Carbon emissions, footprint and/or weighted average carbon intensity (WACI) (tonnes of CO_2e / £m revenue) • Scope 3 Carbon emissions, footprint and/or weighted average carbon intensity (WACI) (tonnes of CO_2e / £m revenue) • % of portfolio companies with climate transition targets in place • Voting & engagement activities on climate change	• % of energy usage coming from renewable sources • % of portfolio involved in renewable infrastructure development
Desired direction of travel	• Reduce Scope 1, 2 CO_2 year on year and lower compared to broad index e.g. MSCI All Countries World index • Scope 3 emissions disclosed and reduced over time • Decarbonisation of all mandates compared to previous year • Increase of companies in the portfolio with transition plans in place and an increase in voting & engagement activities on climate change • Improvement in the disclosure and reporting of the above metrics	• Improvement in portfolio % total energy usage from renewable sources / total energy usage all sources • Improvement in portfolio % involved in renewable infrastructure development • Improvement in the disclosure and reporting of the above metrics

- It is recommended the Committee initially focus on SDGs #7 (Affordable & Clean Energy) and #13 (Climate Action) as key objectives for the Fund and to look to agree relevant metrics and targets in line with these objectives. These can then be used to meaningfully engage with the Fund's investment managers. The proposed framework and metrics to measure these objectives are outlined in detail in the table above.
- This recommendation is based on the Committee's indicated SDG priorities combined with initial alignment to TCFD requirements and anticipated data availability from investment managers across the Fund's currently portfolio. Data availability is currently poor for non-climate metrics and data coverage is currently highly dependant on asset class - there is typically lower coverage across illiquid/private asset classes and higher coverage in public asset classes.
- As noted in the "desired direction of travel" the proposal outlined a target of "relative improvement" as opposed to absolute or fixed targets i.e.. "reduce over time" rather than "7% p.a. reduction".

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Recommendation (2)

- Following the decision of which ESG objectives to target and metrics to monitor, an initial step is to perform a data feasibility exercise with the Fund's investment managers.

- As noted on the previous slide, in addition to the climate focused metrics set out on the previous page, four socially focused ESG goals were also highlighted as high priorities. Based on the Fund's current portfolio and anticipated data availability we recommend further investigation is undertaken in relation to these to ascertain what is possible. This can be done in conjunction with the data feasibility exercise noted above.

- It is understood the private sector regulator is looking at social issues now, and it is anticipated that this will be a big focus over the next 3-5 years with data availability rapidly improving. It is still unclear if this will be applied to LGPS. This is a developing area and should be reassessed and refreshed as data improves and evolves over time.

- We propose this recommendation and framework is revisited after 2 years in order to assess how the situation has developed and whether the recommended position remans appropriate.

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Suggested reporting framework (example numbers)

		Mgr A	Mgr B	Mgr C	Mgr D	Total portfolio	Target	Proposed Target Date
SDG 13 (Climate Action)	Scope 1,2 carbon emissions/footprint/WACI* (tonnes of CO_2e / £m revenue)	240	90	180	140	150	Improvement y.o.y*	Evolving
	Scope 3 carbon emissions/footprint/WACI (tonnes of CO_2e / £m revenue)	260	50	N/A	220	210	Improvement y.o.y*	Evolving
	% companies with climate transition plan	2%	55%	N/A	20%	15%	Improvement y.o.y*	Evolving
	No. of engagements on climate change in year	1	12	3	5	21	Improvement y.o.y*	Evolving
SDG 7 (Affordable & Clean Energy)	% of energy usage from renewable sources	20%	35%	10%	8%	22%	Improvement y.o.y*	Evolving
	% of portfolio involved in renewable infrastructure development	10%	20%	0%	2%	12%	Improvement y.o.y*	Evolving

Notes: Example numbers are for illustrative purposes only. * Improvement in the context of the Fund's objectives means both the reduction or improvement in the relevant metric (where available) as well as the improvement in disclosure and reporting of the metrics over time, given that the reporting of these metrics continue to develop and are currently inconsistent or unavailable.

- We propose the ESG metrics identified are measured on an ongoing basis using a framework similar to the above. This will enable the Committee to identify whether the Fund's managers are improving over time in line with the Committee's objectives and what, if any, action is required – improving disclosure or managing exposures.
- If there are managers that are laggards, and continue to be so, then remedial action can be taken.
- This is an evolving area and industry wide ESG reporting and data availability continues to develop. We expect upcoming TCFD regulations to drive improvements in data disclosure and reporting, however, at this stage some data may not be available for all of the Fund's mandates

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Next steps

- If the Committee are comfortable with the recommendation set out in this report, it is proposed they agree Climate Change (SDG #13) and Affordable & Clean Energy (SDG #7) as the primary and initial ESG objectives and the metrics to monitor.

- Following this, the proposed next steps are:

  - Complete a data feasibility exercise with underlying managers to assess what they are able to currently provide for SDGs #7 and #13 and engage with them in areas where data is limited.
  - Use initial data to assess the current position on agreed metrics.
  - Engage with investment managers to investigate data feasibility for the four socially focused objectives highlighted in this presentation.
  - Implement a reporting framework and set appropriate targets, with a preference for relative improvement as opposed to absolute or fixed targets, in relation to each metric.
  - As data and reporting develops over time, reassess and refresh the Fund's objectives, metrics and targets. We propose the next review takes place after 2 years.

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Appendix

A1: Setting ESG Objectives and Metrics Workshop Presentation

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Scottish Borders Council Pension Fund

Setting ESG Objectives and Metrics Workshop

February 2022

isio.

Document Classification: Confidential

Contents and aim of today's session

Contents

- Why monitor ESG metrics?
- Regulatory outlook
- Mapping the UN SDGs to ESG metrics
- Targeting a specific or multiple UN SDGs?
- Committee views and our proposal
- Next steps

Aim

Committee to consider whether:

- They wish to set specific ESG objectives and metrics linked to their beliefs
- The focus should be on TCFD related objectives or include broader considerations
- How these can be monitored.

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Why monitor ESG metrics?

- Current Responsible Investment policy => The Fund will to pursue a "sustainable" investment approach where possible and where there is financial rationale in doing so

- Important to measure and quantify environmental and social impacts of the investment portfolio to enable this

- An ESG monitoring framework will:

1. **Provide data** on key ESG risks across investments
2. **Align more closely with the Fund's Responsible Investment** policy
3. Fulfil requirements of the anticipated **TCFD regulation** and also **UK Stewardship Code 2020** requirements
4. Enable the Committee to set **ESG impact targets** for managers and tangible objectives at overall portfolio level
5. **Enhance ESG reporting to members**

- Monitoring ESG metrics is a journey that will evolve over time as data improves
- We recommend using the UN Sustainable Development Goals (UN SDGs) as a starting point to set specific metrics aligned with the Committee's beliefs.

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Introduction to the UN SDGs

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These 17 goals, intended to be achieved by 2030, encourage collective action towards a better and more sustainable future.

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Possible ESG framework using the UN SDGs

UN SDGs applied to the financial sector

- The UN SDGs were not designed specifically for investors so investment-focused goals are needed to translate the SDGs into a framework for financial decision making and managing risks in your investment portfolio.
- We recommend :
  - Setting objectives that can be achieved by your investment portfolio
  - Choosing suitable metrics to monitor progress towards achieving each objective
  - Agreeing targets for each metric
  - Considering the journey for achieving each objective – both in terms of data and investment decisions
- We see clients take two main approaches:

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1. Targeting **individual** specific SDGs (e.g. focus on climate change)

or

2. Using the SDGs as a **broad framework**, targeting SDGs across E, S and G

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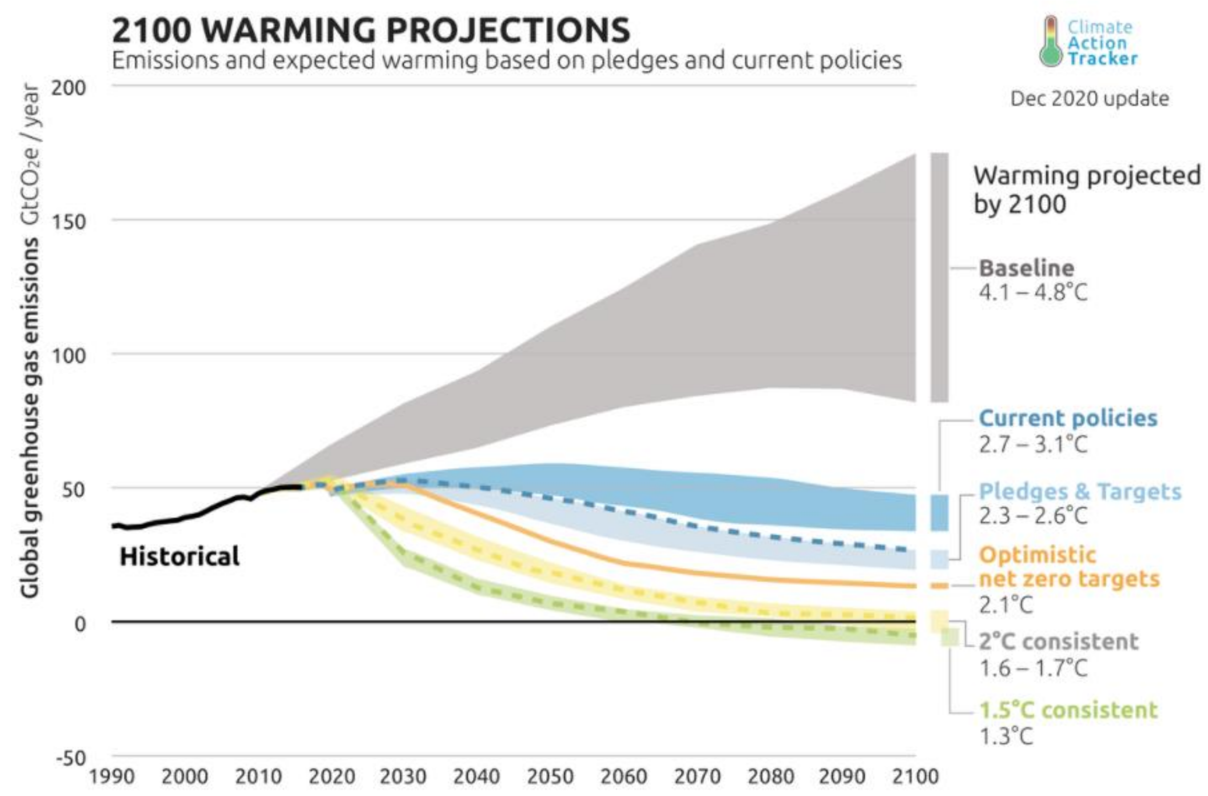
UN SDG #13 – Climate action (& the focus of TCFD regulation)

Paris Aligned Investment Initiative (PAII) launched in May 2019 recommends all asset owners should have the objective of achieving a net zero emissions portfolio by 2050 or sooner

What does net zero mean ?

- Target global **net zero emissions by 2050** or earlier, consistent with 1.5°C increase above pre-industrial levels
- **Decarbonisation pathway** of c.7% carbon reduction p.a.
- Alignment of investment objectives with **Paris Agreement**
- **Communication of targets** to investment managers
- **Stewardship activities** focused on climate action



Source : climateactiontracker.org

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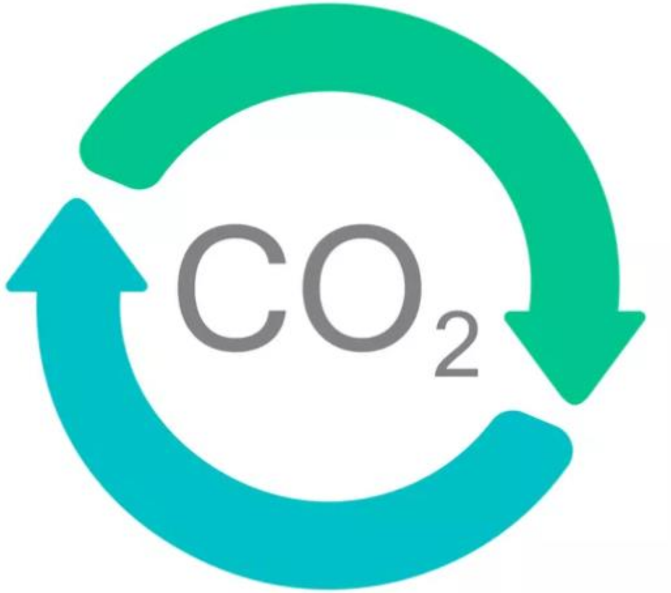
UN SDG #13 – Climate action – Implementation for the Fund

Measuring and reducing emissions

- Collecting **scope* 1, 2, 3 emissions data**
- Reducing **carbon emissions** today where possible
- Investing with managers and companies with credible **climate transition plans**



Pursuing climate transition opportunities

- Increasing investments in assets aligned with, or contributing to, the **net zero goal**
- Exploring assets that **offset emissions** such as forestry
- Maximise “avoided” or scope* 4 emissions to increase impact
- Using **active ownership** to encourage climate transition

Note: *Scope 1 covers direct emissions from owned or controlled sources.
Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
Scope 3 includes all other indirect emissions that occur in a company's value chain
Scope 4 the emissions reduced/avoided through business activities

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Example ESG reporting framework for UN SDG #13

Single UN SDG Framework Example	
UN SDG	Climate Action (#13)
Outcome/Objective	Reduce climate risk in the portfolio today; promote developments in renewable energy Net zero target by 2050
Metrics (TCFD regulation require two greenhouse gas (GHG) metrics and one non GHG metric)	Scope 1, 2, 3, 4 green house gas tonnes CO_2e % of portfolio companies with climate transition targets in place Voting & engagement activities on climate change
Targets/KPIs	Scope 1, 2 CO_2 reduction of 25% compared to e.g. MSCI All Countries World index Scope 3 emissions disclosed Scope 4 (avoided emissions) maximised across investments to offset scope 1, 2 and 3 Decarbonisation of all mandates by 7% p.a. or more (7% is Paris aligned decarbonisation pathway) 50% of companies in the portfolio with transition plans in place
Journey	• Agree timeframes for achieving the KPIs • Consider availability of data • Engagement on climate change topics with milestones for escalation / divestment • Use frameworks e.g. Transition Pathway Initiative, Science Based Target Initiative to enhance decision making

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Example – Multiple social diversity UN SDGs

Investment framework objectives

- Creating a healthier, happier and more productive workforce and society
- Diverse gender and ethnic representation and targets to reduce wage disparities in portfolio companies
- Companies and suppliers have strong labour practices and enhanced ESG reporting

Possible Metrics

- **Good Health & well-being:** % fund allocation in healthcare industries or employee satisfaction scores & access to healthcare;
- **Ethical production:** No instances of child labour in portfolio including suppliers
- **Gender diversity:** % females in senior positions
- **Gender pay:** Pay gap analysis (M:F) across portfolio
- **Ethnic diversity:** BAME statistics and targets across portfolio

Proposed metric to monitor

Good Health & well-being: % fund allocation in healthcare industries; Employee satisfaction scores & access to healthcare.

Portfolio target

- Exposure to healthcare sector at least in proportion (12%) to MSCI ACWI (for equity funds).
- Target improvements in portfolio company employee satisfaction scores / above industry medians.
- Improvement in diversity metrics over time.

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Example - Governance UN SDG #16

Investment framework objectives

- The investment portfolio consists of well governed companies with transparent reporting
- Business practices are ethical

Possible Metrics

- **Board makeup :** % CEO / Chairperson role separated in portfolio companies
- **Audit flags:** % of holdings with qualifications in last audit
- **Malpractice:** Number of fines for regulatory breaches across portfolio

Proposed metric to monitor

Board makeup : % CEO / Chairperson role separated in portfolio companies

Portfolio target

- At least 50% of companies have a separate CEO and chair

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Multiple SDG summary

UN SDG theme	Metric	Target*
Environmental	**Emissions:** tonnes of CO_2e / £m revenue **Climate pathways:** °C temperature increase associated with portfolio	• Under 150 tonnes of CO_2e /£m • Managers to report scope 3 data • Portfolio is Paris Aligned i.e. reduces CO_2e by 7% p.a. and targets a 2°C or less global warming scenario • 75% of portfolio companies align with TCFD
Social Diversity	**Good Health & well-being:** % fund allocation in healthcare industries; Employee satisfaction scores	• Exposure to healthcare sector at least in proportion (12.3%) to MSCI ACWI (for equity)
Human Development	**Equal opportunities:** Number of internships offered to black students (non university) per company in portfolio	• Each portfolio company takes on at least 4 black interns from disadvantaged backgrounds
Governance	**Board makeup:** % CEO / Chairperson role separated in portfolio companies	• At least 50% of companies have a separate CEO and chair
Responsible ownership	**Stewardship:** How many engagements were supportive of UN SDG (Sustainable Development Goals) per company in portfolio	• 50% of companies have been engaged with on ESG factors p.a.

Note: * We recommend reviewing these targets after receiving data from each manager to check they are achievable within a realistic timeframe across your portfolio

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Summary of the Committee's SDG priorities

	No current investment opportunities
	Lower ranking
	Higher ranking

- A SDG questionnaire was used to gather the Committee's views around the priority and reputational risk of the SDGs to the Fund - scored from 1 (highest priority) – 10 (lowest priority)
- 11 responses were received (out of a possible 16) with 7 clear SDG priorities agreed on.
- Initial indications suggest #13 climate action is considered a high priority, alongside other environmental goals such as #6 clean water and sanitation and #7 affordable & clean energy.
- Alongside this, 4 socially focused goals were highlighted as high priority, these were, #1 no poverty, #2 zero hunger,#3 good health & well-being and #10 reduced inequalities.
- While this provides a good insight and provides points for discussion, ideally we would have received a full array of responses from the Committee ahead of drawing final conclusions.

UN SDG	Avg.	# of responses	Rank*
1. No Poverty	5.5	8	7
2. Zero Hunger	3.0	7	1
3. Good Health & Well-being	3.3	7	2
4. Quality Education	6.0	8	9
5. Gender Equality	8.0	3	15
6. Clean Water & Sanitation	4.4	9	3
7. Affordable & Clean Energy	4.6	10	5
8. Decent Work & Economic Growth	4.5	8	4
9. Industry Innovation & Infrastructure	6.1	7	10
10. Reduced Inequalities	5.7	3	8
11. Sustainable Cities & Communities	10	1	16
12. Responsible Consumption & Production	7.0	5	14
13. Climate Action	5.3	10	6
14. Life Below Water	6.6	7	12
15. Life on Land	6.9	8	13
16. Peace, Justice & Strong Jurisdictions	6.2	6	11
17. Partnership for the Goals	-	-	17

* Rank is based on average score

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Recommendation (1)

- At least initially, we recommend the Committee focus on SDGs #7 (Affordable & Clean Energy) and #13 (Climate Action) as key objectives for the Fund and to look to agree relevant metrics and targets in line with these objectives. These can then be used to meaningfully engage with the Fund's investment managers. The proposed framework and metrics to measure these objectives is outlined on the next page.
- This recommendation is based on the Committee's indicated SDG priorities combined with initial alignment to TCFD requirements and anticipated data availability from investment managers across the Fund's currently portfolio.
- Data availability is currently poor for non-climate metrics.
- As noted on the previous slide, 4 socially focused goals were also highlighted as high priorities. Based on the Fund's current portfolio and anticipated data availability we recommend further investigation is undertaken in relation to these to ascertain what is possible.
- We understand the private sector regulator is looking at social issues now, we think this is going to be a big focus over the next 3-5 years with data availability rapidly improving. It is still unclear if this will be applied to LGPs in due course.
- #1 no poverty was highlighted as one of the socially focused high priority SDGs. The anticipated affordable housing allocation would demonstrate measurable progress here. The Committee may want to consider adding this as a third objective alongside #7 and #13.
- This is a developing area and should be reassessed and refreshed as data improves and evolves over time.
- Data coverage is currently highly dependant on asset class, currently there is typically lower coverage across illiquid/private asset classes and higher coverage in public asset classes.

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Recommendation (2)

UN SDG	Climate Action (#13)	Affordable & Clean Energy (#7)
Outcome/Objective	• Reduce climate risk in the portfolio • Net zero target by 2050	• Ensure access to affordable, reliable, and sustainable energy • Prepare portfolio for future transitions toward renewable energy sources
Metrics (TCFD regulation requires two greenhouse gas (GHG) metrics and one non GHG metric)	• Scope 1 and 2 Carbon emissions, footprint and/or weighted average carbon intensity (WACI) (tonnes of CO_2e / £m revenue) • Scope 3 Carbon emissions, footprint and/or weighted average carbon intensity (WACI) (tonnes of CO_2e / £m revenue) • % of portfolio companies with climate transition targets in place • Voting & engagement activities on climate change	• % of energy usage coming from renewable sources • % of portfolio involved in renewable infrastructure development
Desired direction of travel	• Reduce Scope 1, 2 CO_2 year on year and lower compared to broad index e.g. MSCI All Countries World index • Scope 3 emissions disclosed and reduced over time • Decarbonisation of all mandates compared to previous year (7% p.a decarbonisation is Paris aligned) • Increase of companies in the portfolio with transition plans in place and an increase in voting & engagement activities on climate change • Improvement in the disclosure and reporting of the above metrics	• Improvement in portfolio % total energy usage from renewable sources / total energy usage all sources • Improvement in portfolio % involved in renewable infrastructure development • Improvement in the disclosure and reporting of the above metrics

- The Committee should consider their views on implementing the specific objectives and metrics outlined above
- In addition the Committee should consider how they wish to measure progress against these with a preference for relative improvement as opposed to absolute or fixed targets e.g. “reduce over time” or “7% p.a. reduction”
- An initial step is to perform a data feasibility exercise with the Fund’s investment managers.

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Suggested reporting framework (example numbers)

		Mgr A	Mgr B	Mgr C	Mgr D	Total portfolio	Target	Proposed Target Date
SDG 13 (Climate Action)	Scope 1,2 carbon emissions/footprint/WACI* (tonnes of CO_2e / £m revenue)	240	90	180	140	150	Improvement y.o.y*	Evolving
	Scope 3 carbon emissions/footprint/WACI (tonnes of CO_2e / £m revenue)	260	50	N/A	220	210	Improvement y.o.y*	Evolving
	% companies with climate transition plan	2%	55%	N/A	20%	15%	Improvement y.o.y*	Evolving
	No. of engagements on climate change in year	1	12	3	5	21	Improvement y.o.y*	Evolving
SDG 7 (Affordable & Clean Energy)	% of energy usage from renewable sources	20%	35%	10%	8%	22%	Improvement y.o.y*	Evolving
	% of portfolio involved in renewable infrastructure development	10%	20%	0%	2%	12%	Improvement y.o.y*	Evolving

Notes: Example numbers are for illustrative purposes only. * Improvement in the context of the Fund's objectives means both the reduction or improvement in the relevant metric (where available) as well as the improvement in disclosure and reporting of the metrics over time, given that the reporting of these metrics continue to develop and are currently inconsistent or unavailable.

- This is an evolving areas and industry wide ESG reporting and data availability continues to develop.
- We expect upcoming TCFD regulations to drive improvements in data disclosure and reporting, however, at this stage some data may not be available for all the Fund's mandates
- This framework will enable the Committee to identify whether the Fund's managers are improving over time in line with the Committee's objectives and what action is required – improving disclosure or managing exposures.
- If there are managers that are laggards, and continue to be so, then remedial action can be taken.

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Next steps

- Based on the output of this workshop the Committee should determine whether there are any specific objectives the Fund wishes to address - initial analysis suggests that #13 Climate Change and #7 Affordable & Clean Energy are priorities for the Committee, along side 4 broader socially focused objectives.
- Based on the initial analysis, we believe the Fund should consider the following:
  - The Committee to agree Climate Change (SDG #13) and Affordable & Clean Energy (SDG #7) as the primary and initial ESG objectives and the metrics to monitor.
  - Complete a data feasibility exercise with underlying managers to assess what they are able to currently provide for SDGs #7 and 13 and engage with them in areas where data is limited
  - Use initial data to assess the current position on agreed metrics.
  - Engage with investment managers to investigate data feasibility for the 4 socially focused objectives highlighted in this presentation
  - Implement a reporting framework and set appropriate targets, with a preference for relative improvement as opposed to absolute or fixed targets, in relation to each metric.
  - As data and reporting develops over time, reassess and refresh the Fund's objectives, metrics and targets on an annual basis.

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Appendices

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A1: Requirements of TCFD

Governance

- Responsibilities agreed
- Governance frameworks updated
- Training received
- ESG policies / beliefs reviewed

Strategy

- Climate risks / opportunities considered
- Scenario analysis undertaken
- Review funding plan and covenant

Risk Management

- Incorporate climate risk into risk frameworks
- Review your investment managers
- Consider materiality of risks across asset classes

Metrics & Targets

- Disclose metrics
- Set targets against metrics
- Review and improve

- Annual TCFD Report to be published on a public website
- Annual disclosure - actions taken on all 4 areas of TCFD recommendations
- Link to website provided in annual accounts on ongoing basis

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A2: The principles of the UK Stewardship Code 2020

FRC

PURPOSE & GOVERNANCE

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Signatories' governance, resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.

INVESTMENT APPROACH

6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.

ENGAGEMENT

9. Signatories engage with issuers to maintain or enhance the value of assets
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.

EXCERCISING RIGHTS & RESPONSIBILITIES

12. Signatories actively exercise their rights and responsibilities.

- Setting ESG objectives and targets and measuring these using appropriate metrics helps address requirements under 3 of the 12 principles

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A3: Climate metrics – TCFD regulatory requirements

It is expected there will be a requirement in the first year the Fund is captured by the TCFD regulations, to select a set of climate-related metrics, monitor these on an annual basis, and review the selection of metrics from time to time.

For TCFD purposes, the Committee must select and report on a minimum of:

- **one absolute emissions metric**
  - recommended absolute emissions metric being **Total Greenhouse Gas emissions**
- **one emissions intensity metric**
  - recommended intensity based emissions metric being **Carbon Footprint**
  - the **Weighted Average Carbon Intensity** could be used in place of Carbon Footprint, but trustees should explain their reasoning
- **one additional climate change metric**
  - there is flexibility on the additional climate change metric reported, examples include a Portfolio Alignment metric, Climate Value-at-Risk and Data quality

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A4: Detailed results the Committee's SDG priorities

Grey	No current investment opportunities
Yellow	Lower ranking
Green	Higher ranking

UN SDG	Cllr. A	Cllr. B	Cllr. C	Cllr. D	Cllr. E	Cllr. F	Cllr. G	Cllr. H	Cllr. I	Cllr. J	Cllr. K	Avg.	No. of responses	Rank*
1. No Poverty	2	2	1	-	-	-	7	10	2	10	10	5.5	8	7
2. Zero Hunger	3	1	-	8	-	-	6	1	1	-	1	3.0	7	1
3. Good Health & Well-being	-	3	-	9	1	1	5	-	3	1	-	3.3	7	2
4. Quality Education	-	10	2	10	2	2	10	8	-	4	-	6.0	8	9
5. Gender Equality	-	8	-	-	-	10	-	6	-	-	-	8.0	3	15
6. Clean Water & Sanitation	-	4	3	6	4	4	-	2	4	5	8	4.4	9	3
7. Affordable & Clean Energy	5	5	-	3	6	6	1	7	5	6	2	4.6	10	5
8. Decent Work & Economic Growth	1	6	-	1	5	5	8	-	8	2	-	4.5	8	4
9. Industry Innovation & Infrastructure	7	-	4	5	10	-	2	9	-	-	6	6.1	7	10
10. Reduced Inequalities	-	7	-	-	-	-	-	-	-	7	3	5.7	3	8
11. Sustainable Cities & Communities	-	-	-	-	-	-	-	-	10	-	-	10	1	16
12. Responsible Consumption & Production	6	-	7	-	-	-	9	-	-	9	4	7.0	5	14
13. Climate Action	8	9	5	2	3	3	3	5	-	8	7	5.3	10	6
14. Life Below Water	10	-	6	4	8	8	-	4	6	-	-	6.6	7	12
15. Life on Land	9	-	-	7	7	7	4	3	9	-	9	6.9	8	13
16. Peace, Justice & Strong Jurisdictions	4	-	-	-	9	9	-	-	7	3	5	6.2	6	11
17. Partnership for the Goals	-	-	-	-	-	-	-	-	-	-	-	-	-	17

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* Rank is based on average score

A5: The Committee's ESG Beliefs

Risk Management	1. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee. 2. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, is likely to lead to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy where it is believed they can add value. 3. The Committee will consider Council and other employer policies and values in the Fund's ESG policy
Approach/ Framework	4. The Committee seeks to understand how investment managers integrate ESG considerations into their investment process and in their stewardship activities. 5. The Committee believes that certain sectors that provide a positive impact, such as funds that support the climate transition, will outperform as countries transition onto more sustainable development paths. The Committee also requires all investment managers to declare and explain any holdings in companies which violate the UN Global Compact.
Voting & Engagement	6. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have a responsibility to engage with companies on ESG factors. 7. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates. 8. The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.
Reporting	9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge. 10. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments. 11. The Committee will set ESG targets based on their views and how key ESG metrics evolve over time.
Collaboration	12. Investment managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI, GRESB, TCFD and Stewardship Code. 13. The Fund should sign up to a recognised ESG framework/s to collaborate with other investors on key issues.

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A6: Example environmental UN SDGs

Investment framework objectives

- Portfolio targeting a temperature increase of 2°C or less
- Net zero portfolio
- Providing capital to renewable energy production and electricity network improvements
- Engaging on resource usage
- Water efficiency
- Waste reduction and innovative recycling

Possible metrics

- **Emissions**: tonnes of CO2e / £m revenue
- **Water usage**: m3/£m revenue
- **Waste and recycling**: % products and packaging using reclaimed materials
- **Climate pathways**: °C temperature increase associated with portfolio

Proposed metrics to monitor

Emissions: tonnes of CO_2e / £m revenue

Climate pathways: °C temperature increase associated with portfolio

Environmental alignment: % of portfolio companies aligned to TCFD

Portfolio targets

- Under 150 tonnes of CO_2e /£m
- Managers to report scope 3 data
- Portfolio is Paris Aligned i.e. reduces CO_2e by 7% p.a. and targets a 2°C or less global warming scenario

Note: *This means full alignment and reporting in line with the 7 principles for effective disclosure

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A7: Example responsible ownership UN SDGs

Investment framework objectives

- Investment portfolio promotes the UN SDGs and your capital is used to encourage responsible business practices

Possible metrics

Stewardship: How many engagements were supportive of UN SDGs

Proposed metrics to monitor

Stewardship: How many engagements were supportive of UN SDGs per company in portfolio

Portfolio target

- 50% of companies have been engaged with on ESG factors p.a.

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INFORMATION UPDATE

Briefing Paper by Director Finance & Corporate Governance

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

17 March 2022

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 light of the recent developments in the Ukraine, Heywood Technologies, our Pensions Administration system supplier, has issued a bulletin highlighting the steps that they have taken in response to the heightened cyber security threat level. This is in addition to the cyber security information that they had previously provided us as part of our risk mitigations.

3 OVERSEAS LIFE CHECKS

3.1 At the December meeting we reported that there were six outstanding life certificates to be returned. Following reminders being issued there is one member who has not yet returned the life certificate, as a result payment of pension has been suspended.

4 SCHEME ADVISORY BOARD

4.1 The last reported meeting of the Advisory Board was 24th November and was reported to Joint Committee and Board on 14 December. The Bulletin of this meeting was not available at previous meeting and remains unavailable. The agenda contained the following items

- Structure review project

- SPPA update
- Responsible investment
- Cost transparency
- SAB Work plan

4.2 The Board also met on 23rd February, there is currently no bulletin available but the agenda contained the following items.

- Structure review project
- Climate risk reporting sub group
- Cost transparency
- SPPA update
- SAB work plan.

4.3 The next noted meeting is 20th April.

5 TRAINING OPPORTUNTIES

5.1 There have been 5 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. All members have now fully met this requirement.

5.2 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.

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

6 FUTURE MEETINGS

6.1 The dates of future meetings are given below for information. The next round of dates will be available soon and all members will be notified.

Joint Pension Fund Committee and Pension Fund Board

- Thursday 17 March 2022
- Wednesday 29 June 2022

Pension Fund Investment Performance Sub Committee

- Tuesday 28 June 2022

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SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL PLAN 2022/23

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

17 March 2022

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to present for approval the Internal Audit Annual Plan 2022/23 for the Scottish Borders Council Pension Fund to enable the Chief Officer Audit & Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**

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

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

1.4 The proposed Internal Audit Annual Plan 2022/23 for the Pension Fund in Section 4.2 sets out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process include a clear understanding of the organisation's functions, associated risks, and assurance framework.

1.5 There are resources currently in place to achieve the Internal Audit Annual Plan 2022/23 for the Pension Fund and to meet its objectives.

2 RECOMMENDATIONS

2.1 I recommend that the Joint Pension Fund Committee and Pension Fund Board:

a) Approve the Scottish Borders Council Pension Fund Internal Audit Annual Plan 2022/23.

3 BACKGROUND

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

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

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

3.3 The Internal Audit work for 2022/23 has been informed by the risks, controls and mitigation actions as set out within the Pension Fund's Risk Register to ensure that Internal Audit plans are risk-based and provide relevant assurance for the Pension Fund.

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

3.5 Internal Audit resources are outlined in the Council's Internal Audit Annual Plan 2022/23 to be approved by SBC's Audit and Scrutiny Committee on 14 March 2022. A total of 5 days have been allocated to provide Internal Audit services to the Scottish Borders Council Pension Fund, which reflects the Council's contribution of corporate support resources.

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

4 SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL PLAN 2022/23

4.1 In summary the Internal Audit work for 2022/23 is designed to encompass:

a) An appraisal of the operation of corporate governance and risk management arrangements;
b) A review of key controls including pension administration and financial management arrangements in place;
c) A review of business plan objectives and outcomes.

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

Category	Our planned audit approach and coverage within 2022/23
Internal Audit assurance on corporate governance and risk management	We will attend the Joint meetings of the Pension Fund Committee and Pension Fund Board to observe planning, approval, monitoring and review activity of Scottish Borders Council Pension Fund. We will assess the Pension Fund’s corporate governance and risk management arrangements in place to deliver its objectives set out in its Business Plan. We will use the Pension Fund’s Governance Policy and Compliance Statement (most recently presented within the Annual Report and Accounts 2020/21) as an integrated toolkit to test key elements to determine whether these are operating as described. We will consider and apply National Reports that give rise to introducing best practice arrangements or lessons learned from other organisations to enable Management to evidence improvements in practices on a continuous basis.
Internal Audit assurance on financial governance and key controls	We will use Internal Audit work over the systems and controls in place at Scottish Borders Council that cover the same systems for the Pension Fund to ensure transactions are valid, complete and accurate. Specifically within the SBC Internal Audit Annual Plan 2022/23 the financial governance audits on Payroll and Procurement to Payment will include a sample of Pensioner transactions to provide assurance on completeness and accuracy. We will follow-up on progress on areas of improvement recommended in 2021/22 audit assurance work.
Internal Audit assurance on business plan improvements and developments	We will assess whether the Business Plan is aligned to Pension Fund priorities and objectives, and specifically review progress with the deployment of the Member self-service facility.

5 REPORTING OF INTERNAL AUDIT RESULTS

5.1 The Internal Audit Annual Plan 2022/23 for the Pension Fund includes sufficient work to enable SBC’s Chief Officer Audit & Risk to prepare an annual independent and objective audit opinion on the adequacy of the Scottish Borders Council Pension Fund’s arrangements for risk management, governance and control.

5.2 At the end of the year, the Internal Audit Annual Assurance Report 2022/23 for the Scottish Borders Council Pension Fund’s will be presented to Management and to the Joint Pension Fund Committee and Board, for governance and scrutiny purposes. The assurance report will include: the statutory audit opinion based on the Internal Audit work during the year; the results from each audit category outlining the risks, controls and conclusions; progress with implementation and outcomes of agreed improvement actions; and any recommendations that have been made, with the associated Management response, responsible owner and timescale for implementation.

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

6 IMPLICATIONS

6.1 **Financial**
There are no financial implications relating to this assurance report.

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

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

6.4 **Sustainable Development Goals**
The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist.

6.5 **Climate Change**
This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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

6.7 **Data Protection Impact Statement**
There are no personal data implications arising from the content of this report.

6.8 **Changes to Scheme of Administration or Scheme of Delegation**
No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the content in this report.

7 CONSULTATION

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

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature ....

Author(s)

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Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board, 3 March 2021

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

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