

# Public Document Pack



## PENSION FUND COMMITTEE AND PENSION BOARD WEDNESDAY, 29 JUNE 2022

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA MS TEAMS on WEDNESDAY, 29 JUNE 2022 at 10.00 AM.

All attendees, including members of the public, should note that the public business in this meeting will be livestreamed and video recorded and that recording will be available thereafter for public view for 180 days

J. J. WILKINSON,  
Clerk to the Council,

23 June 2022

<b>BUSINESS</b>		
1.	<b>Apologies for Absence</b>	
2.	<b>Order of Business</b>	
3.	<b>Declarations of Interest</b>	
4.	<b>Minute (Pages 5 - 10)</b>  Minute of Meeting held on 17 March 2022 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	<b>Pension Fund Investment and Performance Sub-Committee (Pages 11 - 12)</b>  To note the Minute of the Meeting of the Pension Fund Investment and Performance Sub-Committee held on 28 February 2022. (Copy attached.)	2 mins
6.	<b>Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2021/22 (Pages 13 - 18)</b>  Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
7.	<b>Governance Policy &amp; Compliance Statement 2022 (Pages 19 - 38)</b>  Consider report by Director, Finance & Corporate Governance. (Copy attached.)	5 mins
8.	<b>Pension Administration Performance 2021/22 (Pages 39 - 48)</b>  Consider report by Director - People, Performance and Change. (Copy	5 mins

	attached.)	
9.	<b>Training Plan 2022/23</b> (Pages 49 - 64)  Consider report by Director, Finance and Corporate Governance. (Copy attached.)	5 mins
10.	<b>Business Plan 2022/23 - 2024/25</b> (Pages 65 - 88)  Consider report by Director, Finance and Corporate Governance. (Copy attached.)	10 mins
11.	<b>Risk Register Update</b> (Pages 89 - 108)  Consider report by Director, Finance and Corporate Governance. (Copy attached.)	10 mins
12.	<b>Responsible Investment - Monitoring Implementation Plan</b> (Pages 109 - 116)  Consider report by Director, Finance and Corporate Governance. (Copy attached.)	10 mins
13.	<b>Pension Fund Budget Out-Turn to 31 March 2022</b> (Pages 117 - 122)  Consider report by Director, Finance and Corporate Governance. (Copy attached.)	10 mins
14.	<b>Draft Annual Report and Accounts 2021/22</b> (Pages 123 - 214)  Consider report by Director, Finance and Corporate Governance. (Copy attached.)	10 mins
15.	<b>Information Update</b> (Pages 215 - 228)  Consider Briefing Paper by Director, Finance and Corporate Governance. (Copy attached.)	10 mins
16.	<b>Any Other Items Previously Circulated</b>	
17.	<b>Any Other Items which the Chairman Decides are Urgent</b>	
18.	<b>Items Likely To Be Taken In Private</b>  Before proceeding with the private business, the following motion should be approved:-  "That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act."	
19.	<b>Minute</b> (Pages 229 - 230)  Private Section of Minute of Meeting held on 17 March 2022 to be noted and signed by the Chairman. (Copy attached).	2 mins
20.	<b>Pension Fund Investment and Performance Sub-Committee</b> (Pages 231 - 234)  To note the Private Section of the Minute of the Pension Fund Investment	2 mins

	and Performance Sub-Committee held on 28 February 2022. (Copy attached.)	
21.	<b>Investment Performance Quarter to 31 March 2022</b> (Pages 235 - 278) Consider report by Isio Investment Advisory. (Copy attached).	20 mins
22.	<b>Infrastructure Performance</b> (Pages 279 - 304) Consider report by Director, Finance and Corporate Governance. (Copy attached.)	10 mins
23.	<b>Residential Property Mandate Procurement</b> (Pages 305 - 312) Consider report by Director, Finance and Corporate Governance. (Copy attached.)	5 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), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, S. Scott, J. Pirone, Mr D Bell, Mr A Daye, Mr M Drysdale, Mr M Everett, Ms K M Hughes and Ms H Robertson

---

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

---

This page is intentionally left blank

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

MINUTES of Meeting of the PENSION FUND  
COMMITTEE AND PENSION BOARD held  
in via MS Teams on Thursday, 17 March  
2022 at 2.00 pm

---

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

---

1. **URGENT BUSINESS**

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to keep Members informed.

2. **INVESTMENTS IN RUSSIA**

2.1 The Director of Finance and Corporate Governance gave an update on the impact of the Russian invasion of Ukraine. Mr Robertson advised that the Russian invasion of Ukraine was clearly a humanitarian tragedy and would have widespread economic consequences. Officers had been working with the Councils advisers to try to make an early assessment of the likely impacts on the Fund and initial conclusions were:

- Global equity markets had already fallen, and while they had partially recovered, they remained volatile.
- From a macro-economic perspective, higher medium term European, oil, gas and food prices alongside financial market disruption and sanctions on Russia were likely to lead to an increase in already elevated inflationary pressures, which would in turn weaken the outlook for economic growth.
- A period of prolonged instability, with impacts for Europe in particular, was now clearly a potential outcome.
- The situation was uncertain, and changing rapidly, but this could negatively affect asset prices right across the Councils Pension Fund portfolios.

2.2 **Stock specific exposure**

The Fund owned shares in 2 Russian companies within one of its global equity portfolios. These holdings had reduced over recent months as a result of sales activity and market movements and as at close on 14<sup>th</sup> March had been fully written down to zero. The Fund also held investments within a pooled alternatives fund. The funds held were within emerging market bonds and private equity. The value of these investment represented 0.24% invested within the pooled fund. The total investment currently invested in Russia represented less than 0.01% of the overall Fund. With the closure of the Russian Stock market and the illiquid nature of some of the investments managers were unable to disinvest these funds.

2.3 **Underlying exposure**

The Fund invested globally across a range of asset classes and investment markets. This diversification spread risk, but it also created a complex network of commercial and

economic exposures which would all be affected by these events to a greater or lesser extent. Officers were liaising with the Fund investment managers as they assessed the impact of macroeconomic pressures as well as potential wider ramifications and outcomes on companies and assets within the Fund's portfolios.

- 2.4 It was noted that none of this would have any impact on the ability to pay pensions. It might reduce investment returns for a period, but the Fund was a long-term investor and remained well funded. Members welcomed the reassurance. However, concerns regarding the impact that China invading Taiwan were also raised. Mr Robertson was unable to comment on the likely impact and suggested that a wider discussion on investments be held at a future meeting.

**DECISION**

**NOTED the current position with regard to Russian Investment.**

3. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 14 December 2021.

**DECISION**

**NOTED for signature by the Chairman.**

4. **FUND STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES 2022**

There had been circulated copies of a report by the Director Finance and Corporate Governance proposing the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2022. Both these documents required to be kept under review and be updated and approved annually in line with the Pension Fund's business plan. The report explained that the Pension Fund was required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles and Funding Strategy Statement. Appendix A to the report contained the Funding Strategy Statement and Appendix B contained the revised Statement of Investment Principles (SIP) for approval.

**DECISION**

**AGREED to:-**

- (a) **note the Funding Strategy Statement set out in Appendix A to the report and;**
- (b) **approve the Statement of Investment Principles set out in Appendix B to the report.**

5. **RISK REGISTER UPDATE**

With reference to paragraph 3 of the Minute of 14 December 2021, there had been circulated copies of a report by the Director Finance and Corporate Governance which formed part of the risk review requirements of the Pension Fund. It provided 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 highlighting changes to any of the risks contained in the Risk Register. The report explained that identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. A virtual risk workshop had been 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. Appendix 1 to the report detailed the risks within the approved risk

register which had been identified management actions and the progress of these actions to date. It was noted that international tensions caused by the conflict between Russia and Ukraine might have an effect on both UK inflation and the performance of global investment markets. The Fund held very small investments in Russia and none in Ukraine but due to the interconnected global nature of companies, the Fund might still be affected. Increasing inflation would have a direct effect on the Fund's liabilities. As explained earlier in the meeting Officers were 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 would be captured in future iterations of the risk register along with any mitigating actions. There were no new risks identified during the review.

#### **DECISION**

##### **(a) NOTED:-**

**(i) the management actions progress as contained in Appendix 1 to the report; and**

**(ii) no new quantifiable risks had been identified since the last review.**

**(b) AGREED that a full risk review be undertaken and presented to the Committee in June 2022.**

#### **6. PENSION FUND BUDGET MONITORING TO 31 DECEMBER 2021**

With reference to paragraph 6 of the Minute of 14 December 2021, there had been circulated copies of a report by the Director Finance and Corporate Governance Regulatory providing an update on the Pension Fund budget to 31 December 2021 including projections to 31 March 2022. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and sets out the standards that were to be measured against. To ensure the Fund met the standards a budget was approved on 4 March 2021 following the recommendations within the CIPFA accounting guidelines headings. This report was the third quarterly monitoring report of the approved budgets. The total expenditure to 31 December 2021 was £0.785m with a projected total expenditure of £7.160m against a budget of £7.147m. The projected budget variance of £13k was accounted for by the workshop and questionnaire to allow the Fund to agree ESG objectives and thus further enhance its ESG governance. The estimated budget for 2022/23 was estimated at £7.288m which included allowances for the work required by McCloud and new costs for ESG objective measurement and TCFD reporting requirements.

#### **DECISION**

##### **AGREED:-**

**(a) to note the actual expenditure to 31 December 2021;**

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

**(c) to note the cashflow position; and**

**(d) the proposed budget for 2022/23**

#### **7. EXTERNAL AUDIT PLAN 2021/22**

There had been circulated copies of the External Audit Plan 2021/22 for the Scottish Borders Council Pension Fund prepared by Audit Scotland. Ms Amanda Fitzpatrick from Audit Scotland was present at the meeting and presented the report. The report summarised the work plan for the 2021/22 external audit of Scottish Borders Council Pension Fund (the Fund). Ms Fitzpatrick highlighted the main elements of their work which included:

- 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 included 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

The report explained that the coronavirus (Covid-19) pandemic had had a significant impact on public services and public finances, and the effects would be felt well into the future. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continued to assess the risks to public services and finances from Covid-19 across the full range of their audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remained paramount. Changes in their approach might be necessary and where this impacted on annual audits, revisions to this Annual Audit Plan might be required. In response to a question from Councillor Edgar, both Ms Fitzpatrick and Mr Robertson commented on the assessment of materiality which allowed for the accounts to still give a full and fair view despite any errors under the set figure of £9.5m being found.

## **DECISION**

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

### **8. RESPONSIBLE INVESTMENT - OBJECTIVE AND METRICS SETTING**

There had been circulated copies of a report by the Director Finance and Corporate Governance seeking approval for the responsible investment objective and metrics for the Pension Fund in line with the Fund's Responsible Investment Policy. The report explained that the Pension Fund as part of its fiduciary duties was required to ensure appropriate consideration is given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interest of the scheme beneficiaries. The Committee and Board, to ensure these fiduciary duties were 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. 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 were detailed in the Appendix to the report. 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 were the most developed. The workshop agreed 6 key SDG's as priorities. These were 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. Due to development and current availability of data it was proposed SDG13 Climate change and SDG 7 Affordable & clean energy were taken forward with fund managers as an initial priority. This would allow a baseline position to be established prior to targets being set. The social SDGs SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities were currently not able to be measured due to poor data availability. It was proposed the Fund monitor on an annual basis the improvements to data to enable future objective setting and monitoring.

## **DECISION**



**AGREED:-**

- (a) to 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) to note the output of the survey and workshop on 28 February;
- (c) that work now commence with fund managers on the assessment and collection of data for **SDG13 Climate change and SDG 7 Affordable & clean energy**;
- (d) to note further reports would be presented to Committee on the results of this exercise to allow targets to agreed; and,
- (e) to note that an annual review would 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 as quickly as practicable.

**9. INFORMATION UPDATE**

There had been circulated copies of a briefing paper by Director Finance and Corporate Governance providing an update on a number of areas which were being monitored and where work was progressing. These included Cyber security, overseas life checks, the Scheme Advisory Board, training opportunities and future meetings. Full reports on individual actions would be tabled as decisions and actions were required. Councillor Mountford provided an update on the Scheme Advisory Board. The way forward had not been agreed in February and following discussions it had been agreed to refer the matter back to Ministers to get guidance. The Chairman advised that he understood the work required to provide a business case for each option could take 2 years and be very costly. There was also disagreement with Unison wanting the merger but other unions not with the GMB suggesting no further action. The Project Manager had also resigned so there would be a pause before more information was available on the way forward.

**DECISION**

**NOTED** the briefing paper.

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

There had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval of 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. The report explained that the Public Sector Internal Audit Standards (PSIAS) required the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk-based plans to set out the areas of Internal Audit activity, consistent with the objectives of the Pension Fund. A fundamental role of the Internal Audit function was to provide senior management and members with independent and objective assurance, which was designed to add value and improve the organisation's operations. In addition, the CAE was also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment. The proposed Internal Audit Annual Plan 2022/23 for the Pension Fund contained in the report set out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process include a clear understanding of the organisation's functions, associated risks, and assurance framework. There were resources currently in place to achieve the Internal Audit Annual Plan 2022/23 for the Pension Fund and to meet its objectives.

**DECISION**

**AGREED to approve the Scottish Borders Council Pension Fund Internal Audit Annual Plan 2022/23.**

11. **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.**
12. **MINUTE**  
The Committee noted the Private Minute of the meetings of 14 December 2021.
13. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**  
The Private Minute of the meeting held on 27 September 2021 was approved.
14. **Q4 2021 INVESTMENT PERFORMANCE**  
The Committee noted a report by Isio on investment performance.
15. **RESIDENTIAL PROPERTY MANDATE PROCUREMENT**  
The Committee approved a report by the Director Finance and Corporate Governance.

***The meeting concluded at 3.35 pm***

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

MINUTES of Meeting of the PENSION FUND  
INVESTMENT AND PERFORMANCE SUB-  
COMMITTEE held via MS Teams on  
Monday, 28 February 2022 at 1.00 pm

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

1. **MINUTE**

There had been circulated copies of the Minute of the meeting held on 27 September 2021.

**DECISION**

**NOTED for signature by the Chairman.**

2. **PRIVATE BUSINESS**

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

**SUMMARY OF PRIVATE BUSINESS**

3. **PRIVATE MINUTE**

The Sub-Committee noted for signature the Private Minute of the meeting held on 27 September 2021.

4. **ANNUAL ASSESSMENT OF ISIO INVESTMENT ADVISORY**

The Committee noted a report by Isio.

5. **INVESTMENT MANAGER BRIEFING PAPER**

The Committee noted a Manager Briefing Paper by Isio.

6. **PRESENTATION - M & G INVESTMENTS**

The Committee noted a presentation by M&G Investments.

7. **PRESENTATION - BLACKROCK**

The Committee noted a presentation by Blackrock.

***The meeting concluded at 2.45 pm***

This page is intentionally left blank

---

## **SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2021/22**

**Report by Chief Officer Audit and Risk**

---

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

**29 June 2022**

---

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

- 1.1 The purpose of this report is to present the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2021/22, which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report on the adequacy and effectiveness of the Pension Fund's governance, risk management and internal controls to support the preparation of the Pension Fund's Governance Compliance Statement.
- 1.3 To meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2021/22 includes the required Internal Audit annual opinion, provides details of the Internal Audit activity during the year to support the opinion, and states the conformance of the Council's Internal Audit service with the PSIAS.
- 1.4 The Chief Officer Audit & Risk's opinion is that the systems of internal control operating within the Scottish Borders Council Pension Fund during 2021/22 are sound, and governance and risk management arrangements are effective.
- 1.5 **The independent assurance opinion has been incorporated within the Pension Fund's Governance Compliance Statement within the Annual Report and Accounts for the year to 31 March 2022.**

#### **2 RECOMMENDATIONS**

- 2.1 I recommend that the Joint Pension Fund Committee and Pension Fund Board acknowledges the independent assurance provided on internal controls and governance arrangements as set out in the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2021/22.**

### **3 BACKGROUND**

- 3.1 The Joint Pension Fund Committee and the Pension Fund Board approved the Internal Audit Annual Plan 2021/22 for the Scottish Borders Council Pension Fund at its meeting on 04 March 2021. The Internal Audit Annual Plan sets out the range and breadth of audit areas and sufficient audit activity to enable the Chief Officer Audit and Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:  
"The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

### **4 SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2021/22**

- 4.1 The Chief Officer Audit & Risk's opinion is that the systems of internal control operating within the Scottish Borders Council Pension Fund during 2021/22 are sound, and governance and risk management arrangements are effective.
- 4.2 During 2021/22 the Internal Audit work included:
- a) An appraisal of the operation of corporate governance and risk management arrangements;
  - b) A review of key controls including pension administration and financial management arrangements in place;
  - c) A review of performance against objectives, including relevant performance information.
- 4.3 The Fund has effective governance arrangements in place through the joint meetings of the Pension Fund Committee and the Pension Fund Board that support scrutiny and transparency of decisions made. A Skills and Knowledge self-assessment is carried out annually by Members, a Training Plan is proposed to meet those needs, and Members' participation in training events is monitored to ensure Training policy commitments are met. Risk Management is fully embedded into the culture of the Pension Fund with evidence of risk deliberations in decision-making and regular reviews / updates of the Pension Fund risk register being carried out and reported to the joint meetings of the Committee and Board to demonstrate appropriate scrutiny and oversight of risk management.
- 4.4 There was no specific testing of Pensioner Payroll payments within Internal Audit work on Business World ERP System Key Controls which focused on new areas of system functionality. Reliance can be placed on the previous

year's Internal Audit work which concluded comprehensive assurance on key controls and processes to ensure that payroll transactions are valid, complete and accurate. Internal Audit reviewed reports associated with Pensions resulting from the National Fraud Initiative (NFI) Data Matching exercise for 2020/2021. This highlighted one discrepancy, which is currently under investigation to ascertain whether this is the result of error or fraud.

- 4.5 Best practice suggested that having a Business Plan for the Pension Fund was a good way of demonstrating compliance with the "Myners Principle" relating to effective decision making. The Business Plan 2021/22 to 2023/24 for the Pension Fund was approved by the Joint Pension Fund Committee and Pension Fund Board on 10 June 2021. It identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund. The HR Shared Services Manager gave a demonstration of the Self Service Pension System under development at the joint Committee and Board meeting on 16 September 2021. This system would save considerable time for the Pension Administration team, and provide pension scheme members with a valuable tool. A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Joint Pension Fund Committee and Pension Fund Board meeting on 14 December 2021. Quarter Performance Updates are presented in private by the Investment Advisor at the joint Committee and Board meetings. Pension Administration Performance is reported annually to the joint Committee and Board for its inclusion in the Fund's Annual Report and Accounts.
- 4.6 Internal Audit were involved in the testing phase of the Member Self Service facility (MSS) which has been developed for members of the Council's pension fund. This provides direct access for active and deferred scheme members to view personalised pension data on the portal and was completed in time for the Annual Benefit Statement issue. Work is ongoing to increase uptake.
- 4.7 External access to Business World ERP system for pension members to view payslips and P60s is in place. Work continues to promote this facility.
- 4.8 The Internal Audit Annual Assurance Report 2021/22 has been used to inform the Pension Fund's Annual Governance Statement 2021/22, and the Chief Officer Audit & Risk's independent assurance opinion has been incorporated within the Pension Fund's Governance Compliance Statement within the Annual Report and Accounts for the year to 31 March 2022.
- 4.9 The 2021/22 annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) demonstrates sufficient evidence that the Council's Internal Audit section conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards.

## 5 IMPLICATIONS

### 5.1 Financial

There are no financial implications relating to this assurance report.

### 5.2 Risk and Mitigations

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

### 5.3 Integrated Impact Assessment

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

### 5.4 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.

### 5.5 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.

### 5.6 Rural Proofing

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

### 5.7 Data Protection Impact Statement

There are no personal data implications arising from the content of this report.

### 5.8 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.

## 6 CONSULTATION

6.1 The Internal Audit Annual Assurance Report 2021/22 has been used to inform the Pension Fund's Annual Governance Statement 2021/22, and the Chief Officer Audit & Risk's independent assurance opinion has been incorporated within the Pension Fund's Governance Compliance Statement within the Annual Report and Accounts for the year to 31 March 2022.

6.2 The Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director – People Performance and Change, Clerk to the Council, Pensions & Investments Manager, HR Shared Services Manager, and Communications team have been consulted on this report and any comments received have been taken into account.

**Approved by**

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

**Signature .....**

**Author(s)**



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

**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Joint Pension Fund Committee & Board 4 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.

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

This page is intentionally left blank

---

## **GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2022**

**Report by Director Finance & Corporate Governance**

---

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

**29 June 2022**

---

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

- 1.1 **This report proposes the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. It also requests approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2021/22.**
- 1.2 Appendix 1 contains the revised Governance Policy and Compliance Statement for the Pension Fund 2022.
- 1.3 The Governance Compliance Statement for 2021/22 is included in Annex to the policy and demonstrates that the Pension Fund is in full compliance with published best practice guidance.

#### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the revised Governance Policy and Compliance Statement 2022 for inclusion in the Pension Fund Annual Report and Accounts 2021/22.**

### **3 BACKGROUND**

- 3.1 The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority). The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015.
- 3.2 It is a requirement of the LGPS Regulations that the Pension Fund maintains a Governance Policy and Compliance Statement. The statement is reviewed on an annual basis as part of the annual compliance review.

### **4 GOVERNANCE POLICY AND COMPLIANCE STATEMENT**

- 4.1 A review of the Governance Policy was undertaken during 2021/22 and resulted in only minor changes. The revised Policy and Statement are contained in Appendix 1.
- 4.2 Para 3.5 amended to reflect the Interim Scheme of Administration approved at Council on 26 May 2022.
- 4.3 Para 3.6 updated to reflect amended title of Director Finance & Corporate Governance.
- 4.4 Section 6 updated to reflect amended titles of Director Finance & Corporate Governance and Director People, Performance & Change.
- 4.5 Annex A has been updated to reflect closed position of Amey and CGI.

### **5 IMPLICATIONS**

#### **5.1 Financial**

There are no financial implications relating to this proposal.

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

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

#### **5.3 Integrated Impact Assessment**

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

#### **5.4 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**

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

**6 CONSULTATION**

6.1 The 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 and Investment Manager, 01835 825249

**Background Papers:**

**Previous Minute Reference:** Pension Fund Committee, 10 June 2021

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

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

This page is intentionally left blank

# **SCOTTISH BORDERS COUNCIL PENSION FUND**

## **GOVERNANCE POLICY AND COMPLIANCE STATEMENT**

**2022**

**Finance & Corporate Governance**  
**Version: 2022**  
**draft: Pension Fund Committee 29June 2022**

## Introduction

This Statement documents the governance arrangements for the pension scheme administered by Scottish Borders Council. This version of the Governance Policy and Compliance Statement was approved by the Pension Fund Committee on 10 June 2021.

## 1. Administering Authority

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

## 2. Regulatory Framework

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



### 3. Pension Fund Committee

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

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

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

Convener  
One member of the Executive  
Three members of the Administration  
Two members from the Opposition

- 3.6 The Independent Investment Consultant, the Director Finance & Corporate Governance, Pensions and Investment Manager, HR Shared Services Manager and Chief Officer Audit & Risk also attend the Committee meetings as advisers.
- 3.7 The Committee meets at least quarterly. Additional meetings are called as appropriate.
- 3.8 The Committee papers and minutes are publicly available on the Council's website, unless they have been considered as private business in terms of Schedule 7A to the Local Government (Scotland) Act 1973. Minutes of the Committee are presented to the Executive of the Council.
- 3.9 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established under the Council's Scheme of Administration.
- 3.10 The Investment Sub-Committee is comprised of nine members, being the seven members of the Pension Fund Committee and two non-voting members nominated by the Pension Board.
- 3.11 The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment Sub-Committee:
- Reviewing the Pension Fund's Statement of Investment Principles.
  - Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
  - Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
  - Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
  - Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.

- f) Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund’s Risk Register.

3.12 It is anticipated that the Investment Sub-Committee will meet at least every six months and that the Chairman will be the Chairman of the Pension Fund Committee.

3.13 From time to time, the Committee may establish a further additional Sub-Group to address a specific issue or need. Any such Sub-Group will be chaired by a member of the Committee and the remaining membership of the Sub-Group will be appropriate to the purpose and may therefore include other members of the Committee. The minutes and decisions of these sub-groups will be presented to the Committee for noting and agreement.

## 4. Pension Board

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

4.2 The Objectives of the Board are as follows:

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

- a) Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify .

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

- a) Reports produced for the Pension Fund Committee;
- b) Seek reports from the Scheme Manager on any aspect of the Fund;
- c) Monitor investments and the investment principles/strategy/guidance;
- d) The Annual Report and Accounts for the Fund;
- e) External voting and engagement provisions in relation to investments;
- f) Pension Fund Administrative Strategy and associated performance;
- g) Actuarial reports and valuations;
- h) Funding Strategy Statement and associated policy; and
- i) Any other matters that the Board deems appropriate within the responsibilities set out in 4.2 above.

4.4 The Board will consist of eight members and will consist of equal numbers of trade union representatives and employer representatives. The Board’s current membership is as follows:

Employer Representatives	Borders College  Scottish Borders Council  South of Scotland Enterprise (SOSE)
--------------------------	--

	Borders Sport & Leisure Trust (LIVE Borders)
Trade Union Representatives	Unison – 2 members  Unite – 1 member  GMB – 1 member

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

## 5. Meetings

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

## 6. Administration and Management of the Fund

### 6.1 Director Finance & Corporate Governance

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

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

### 6.3 Director People, Performance & Change

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

## 7. Professional Advisers and External Service Providers

- 7.1 Hymans Robertson has been appointed to act as Actuary to the Fund. The services provided include advice on funding and actuarial valuations.

- 7.2 Isio is the Independent Investment Consultant employed by the Council to advise the Committee on investment strategy.
- 7.3 The Fund has appointed investment managers who have responsibility for the selection, retention and realisation of individual investments. Where appropriate, they also implement the Committee's policy in relation to corporate socially responsible investment and corporate governance.
- 7.4 Northern Trust is the global custodian for the Fund and is responsible for the safekeeping of the assets including transaction processing and making tax claims.

## 8. Internal and External Review

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

## 9. Risk Management

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

## 10. Access to Information

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

## 11. Review and Compliance with Best Practice

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

## Annex A

### Scottish Borders Council Pension Fund

#### Scheduled and Admitted Bodies

##### Scheduled Bodies

- Borders College
- Scottish Borders Council

##### Admitted Bodies

###### Active Admitted Bodies

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

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

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

## Annex B

### GOVERNANCE COMPLIANCE STATEMENT

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

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

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

Principle		Full Compliance	Comments
			The <b>Investment and Performance Sub-Committee</b> (the Sub-Committee) established under the Committee and its remit is set out in the Scheme of Administration. Membership of the Sub-Committee is seven elected Members from the Pension Fund Committee and two (non-voting) members from the Pension Board.
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to the Pension Fund Committee for approval.  Two members from the Pension Board and all Members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
<b>Committee Membership and Representation</b>			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent	Yes	The Pension Board and Pension Fund Committee meet jointly ensuring employer and member (trade union) representation at meetings.  The Investment Sub-Committee has two non-voting members from the Pension Board.  The Independent Investment Consultant, Finance and HR Officers also attend in an advisory capacity.



Principle		Full Compliance	Comments
	professional observers, and (iv) expert advisors (on an ad-hoc basis)		
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training They are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June).  The Board was established by Council on 2 April 2015. The Scheme of Administration for the Pension Fund Committee, and the Pension Board Constitution, provide for joint meetings, with equal rights to receive papers and access meetings.
<b>Selection and role of lay members</b>			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected Members this is part of the Council’s Code of Governance along with the Members’ induction programme.  In addition, the Fund’s Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within six months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of the Council’s Code of Governance requires the declaration of Members’ interests for all committees as a standard agenda item.
<b>Voting</b>			
A	The policy of individual administrating authorities on voting rights is clear and	Yes	This is set out in the Council’s Scheme of Administration and the Pension Board’s Constitution

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

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

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

## VERSION CONTROL TABLE

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

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

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

This page is intentionally left blank



---

## **PENSION ADMINISTRATION PERFORMANCE 2021/22**

**Report by Director People Performance and Change**

---

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

**29 June 2022**

---

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

- 1.1 **This report presents the Pensions Administration Performance for 2021/22 and requests the Committee's approval of its inclusion in the Annual Report for the Fund.**
- 1.2 **Appendix 1** contains the Pensions Administration Performance for 2021/22 as it will be included in the Fund's Annual Report and Accounts.
- 1.3 During 2021/22 all payments, lump sums and monthly pension, were made on time.
- 1.4 Performance has remained at the expected high standard, which is testament to the continued dedication of the staff within the Pensions Administration Team, having continued to homework for the majority of the year and adopting to new and improved working practices as a result of the continued global pandemic.
- 1.5 The Annual Benefit Statements for all deferred members were issued in advance of the 31 August deadline in all instances and made available via Members Self Service for all active members.
- 1.6 The annual Employer Liaison Meeting was again held as a virtual meeting in March due to the continued COVID19 restrictions in place at the time. The event was well attended with representatives from the majority of the Fund Employers. Updates were provide on Investments, Administration and the Fund Actuary gave a refresher presentation on the accounting report requests.
- 1.7 Due to the continued COVID19 situation, with staff working predominantly from home, no payslips have been issued to pensioners, however online access has been promoted, this along with information on the application of the Pensions Increase have been published on the Pension Fund Website. The annual P60's have been issued in accordance with the statutory timelines.

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Pension Fund Committee notes the Pension Administration Performance for 2021/22 as set out in Appendix 1 and approves its inclusion in the Pension Fund Annual Report and Accounts 2021/22.**



### 3 BACKGROUND

- 3.1 It is a requirement of the current LGPS Regulations and best practice that the Pension Fund maintains a Pensions Administration Strategy. At the joint meeting of the Committee and Board on 14 December 2021 the latest version of the Pension Administration Strategy for the Fund was approved.
- 3.2 In accordance with the Pension Administration Strategy a number of administration function performance measures were introduced to evaluate the performance of both the Fund and Employers.
- 3.3 A further requirement is that the performance against the Strategy is reported in the annual Report and Accounts for the Fund.

### 4 PENSIONS ADMINISTRATION PERFORMANCE 21/22

- 4.1 **Appendix 1** contains the Pensions Administration Performance Report for 2021/22 as it will be included in the Fund's Annual Report and Accounts.
- 4.2 Performance has remained at a high standard throughout the reporting year. This is testament to the continued dedication of the staff within the team, having coped with the continued COVID restrictions and predominance of working from home. The Employers within the Fund are continuing to provide information in the expected timely manner with information on Starters, Leavers and Changes being received on a monthly basis, with limited numbers where this has been out with the target number of days.
- 4.3 The Pensions Team were able to comply with the legislative requirement to issue annual benefit statements, to all Deferred scheme members by 16 August 2021 and published online for all Active scheme members ahead of the 31 August deadline. This was achieved with staff attending their normal workplace, whilst the majority worked from home, in order to ensure these deadlines were met.
- 4.4 During 2021/22 it was agreed that the Pensions Administration Team would once again focus all efforts on ensuring the statutory elements of the service, as highlighted by the Pensions Regulator, continued to be provided, with all payments to pensioners being issued on time. As a result there was a continued deviation from the previous recording of queries received which is reflected in the table contained in **Appendix 1**.

The 59 queries that were recorded in the log were all responded to within the timelines stated in the Pensions Administration Strategy. The team received 4,102 emails into the generic pensions mailbox during 2021/22 with a further 6,692 being received directly by team members. Unfortunately it is not possible to provide the split into types of queries as previous years.

With hybrid working continuing for the foreseeable future the recording of queries and response times is something that will need to be considered as part of the annual review of the Pensions Administration Strategy. There is a continued commitment from the team members to adhere to the response timelines and this will have no detrimental impact on the service that is being provided to scheme members, only the reporting of figures within this report.

#### 4.5 **Employer Performance Measures**

During 2021/22 there were no instances where payments were received from employers after the deadline.

#### 4.6 **Administering Authority Performance Measures**

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

- 4.7 The Employer Liaison meeting was once again held as a virtual meeting with representatives from the majority of employers attending. This years meeting provide an update on Investment performance along with the upcoming requirements for year end returns and action to be taken for the year ahead. Additionally, employers were asked to encourage those members who had not yet signed up for Members Self Service to do so and reminded them of the benefits that this brings.

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

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

- 4.8 To date there have been 159 pensioners signed up for online payslips an increase from 62 in the previous year report. When we have communication with pensioners we make them aware that this is an available option for viewing payslips, ordinarily we only print when there is a variance in excess of £5.00 from the previous period.

The launch of Members Self Service is the most significant change that we have deployed to our scheme members in many years, which meets the Council's desire to engage with individuals in a digital means wherever possible. Whilst the uptake, 27.52%, is not as high as we had hoped we had very positive feedback from members who have signed up. We continue to promote sign up and will be carrying out a reminder of this in

the coming weeks ahead of the issuing of the 2022 Annual Benefit Statements. There were 12,579 benefit calculations run independently on the system by the member with no involvement from the Pensions Administration Team.

4.9 During 2021/22, 44,688 payments were processed, an increase from 43,154 in 2020/21, to pensioners for a total of £19.249m in net payments. In addition to this, 148 payments were also processed, a slight decrease from 161 payments in 2020/21, to pensioners who now reside overseas for a total of £68,396, these payments are processed via Western Union, providing pensioners with a cost effective means of transferring a sterling pension payment into the appropriate local currency.

4.10 Information on the application of the Pensions Increase have been published on the Pension Fund Website. The annual P60's were issued in accordance with the statutory timelines.

#### 4.11 **Employer Contribution Rates**

The following table outlines the employer contribution rates that are effective from 1<sup>st</sup> April 2022 in line with the previous triennial valuation.

<b>Employer</b>	<b>Employer Contribution %</b>
Borders College	18.00
Scottish Borders Council	18.00
AMEY	18.00
CGI	22.00 plus £16,500
Live Borders	18.00
Jedburgh Leisure Facilities Trust	18.00
Scottish Borders Housing Association	20.80
South of Scotland Enterprise	21.10

## **5 IMPLICATIONS**

### **5.1 Financial**

There are no direct financial implications arising from this report.

### **5.2 Risk and Mitigations**

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

### **5.3 Integrated Impact Assessment**

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is 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 are required as a result of this report.

### 6 CONSULTATION

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

#### Approved by

**Clair Hepburn**

**Director People Performance and Change Signature .....**

#### Author(s)

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

#### Background Papers:

**Previous Minute Reference:** Joint Pension Fund Committee and Board 14 December 2021

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

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

This page is intentionally left blank

## APPENDIX 1

### PENSION ADMINISTRATION PERFORMANCE 2021/22

In accordance with the Pension Administration Strategy, approved 14 December 2021, the following performance measures have been compared against the targets set within the said strategy document.

#### Employer Performance Measures

##### Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	905	99.45%
Change notification – within 20 days	872	100%
Retirement info – at least 20 working days before	289	100%
Early leaver notification – within 20 working days	663	100%
Death in service notification – within 10 working days	4	100%

#### Contribution Payments

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

Employer Body	By Target Date	Late	% On Time
Scottish Borders Council	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	12	-	100%
Jedburgh Leisure Facilities Trust	12	-	100%
Borders Sport and Leisure Trust	12	-	100%
AMEY Community Limited	12	-	100%
CGI	12	-	100%
South of Scotland Enterprise	13	-	100%

There were no late payments received during 2021-22.

#### Administering Authority Performance Measures

##### Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	51	20 days	68.00%
Estimates – Transfer Out	64	20 days	56.25%
Estimate – All Other	1,367	10 days	

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

Type of Query	Volume	Target	%age Met
Phone Calls - logged	59	5 days	100%
Phone Calls to team	6,022	Not measured	
Emails to <a href="mailto:pensions@scotborders.gov.uk">pensions@scotborders.gov.uk</a> mailbox	4,102	Not measured	
Emails to team members directly	6,692	Not measured	
Correspondence via Members Self Service	550	Not measured	
Total	17,425		

### Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	15 <sup>th</sup> March 2022
Benefit Statements	by end of August	Issued by 16 <sup>th</sup> August 2021

The seventh liaison meeting, held virtually, with all Admitted and Scheduled Bodies was held during 2021/22 and re-enforced the changes that had been made to the annual reporting with the Fund Actuary from the 2020/21 year end and afforded the employers the chance to ask questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

The Annual Benefit Statements were issued in paper format to Deferred Members and loaded into the Member Self Service (MSS) portal, all Deferred Members were invited to sign up for MSS and advised that they will be published here going forward. The Annual Benefit Statements for Active Members were published to MSS and personal invitations to sign up were issued to all members either via the email address held on system or through the Employers.

### Key Administration Tasks

Task	Total received
New entrants	878
Early leavers	663
Retirements	289
Deaths in service	4
Deaths in deferment	3
Deaths in retirement	120
New Widows(ers), Child Pensions	63
Estimates	1,367
Pension credit members	0
Pay all Pensioners on 15 <sup>th</sup> of the month or prior working day when 15 <sup>th</sup> is a non-banking day	100% achieved

### Member Self Service Statistics

Task	Total Active	Target	% Completed in target
Active Members	4,703	100%	27.52%
Deferred Members	3,194	100%	
Benefit calculations run	12,579		





---

## **TRAINING PLAN 2022/23**

**Director Finance & Corporate Governance**

---

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

**29 June 2022**

---

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

- 1.1 This report compares the actual 20221/22 attendance for Pension Fund Committee and Board members to the requirements detailed in the current Training Policy approved in June 2019. The report proposes key areas of training for 2022/23 in line with the policy and based on the Skills Knowledge assessment recently undertaken.**
- 1.2 In line with the Training Policy at Appendix 1, the Pension Fund Committee and Pension Fund Board members are required to undertake an annual knowledge and skills self-assessment to identify the key areas for the future years training plan.
- 1.3 The Training Knowledge and Skills Assessments were undertaken in May 2022 and scores received are summarised in the table in paragraph 5.1 and in more detail in Appendix 2.
- 1.4 The proposed Training for 2022/23 will focus on Financial Markets and Products, Investment performance & risk management, Pension Administration and General Pension Fund Regulatory environment. Members are strongly encouraged to actively participate in all training events to demonstrate their commitment to enhancing the governance of the Pension fund and to support effective decision making.

#### **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Joint Pension Fund Committee and Board:**
  - (a) Notes the Training Policy at Appendix 1**
  - (b) Notes the outcome of the 2021/22 training programme and the attendance levels for training and meetings**
  - (c) Notes the outcome of the Knowledge and Skills Self-Assessment for 2022/23; and**
  - (d) Approves the Training areas for 2022/23 set out in para 6.2 and agrees that all members should prioritise attendance at training events wherever practicable.**

### **3 BACKGROUND**

- 3.1 The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority). The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. It is a requirement of the LGPS Regulations that the Pension Fund maintains a training policy and monitors adherence to this policy on an annual basis.
- 3.2 The best practice guidance indicates that the annual report should include an assessment of the performance of the Committee and Board in terms of:
- (a) Attainment of the standards set down in CIPFA's knowledge and skills framework, and
  - (b) Achievement of required training outcomes
- 3.3 The current Training Policy (at Appendix 1) was approved on 13 June 2019 by the Pension Fund Committee and Pension Fund Board and has subsequently been noted annually in June by the Committee and Board at the joint meetings when the Training Plan was considered. One of the key elements of the Training Policy is that all Members of the Pension Fund Committee and the Board commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision-making role. Officers maintain a log on behalf of members to demonstrate the training activities.

### **4 TRAINING ANNUAL UPDATE**

- 4.1 The 2021/22 training programme approved at the 10 June 2021 Pension Fund Committee and Board covered the following:
- (a) Financial markets and investment products
  - (b) Investment Performance & risk management
  - (c) Pension Administration
  - (d) Pension legislation
- 4.2 All training events were open to members of the Pension Fund Committee and Pension Fund Board.

- 4.3 The table below shows the six training events offered and areas covered. All areas identified in the training plan approved on 10 June 2021 were covered by these events.

Organiser	Training Provided
Local Government Pension Scheme (Scot) Officers Group	The Pension Regulator New code of practice, Role of Custodian, Climate disclosure & stewardship code, Cost Transparency and ongoing Scottish LGPS structure review
Local Government Pension Scheme (Scot) Officers Group	Actuarial valuations, Data Dashboard and Longevity and Pension Administration
Pension & Lifetime Savings Association	Climate change, Fossil fuels and ESG investing
In House training	Housing investments
Pension & Lifetime Savings Association	Social investing, Climate reporting and ESG considerations
Local Government Chronical	Climate Change, Investment Strategies, Scottish Structure review, Pension Regulator Code of Practice and multi asset investing

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

No of events	Committee Members	Board Members
	Number of Members	Number of Members
6	3	-
5	-	1
4	1	2
3	1	4
2	2	1
Less than 2	-	-
Total Members	7	8

- 4.5 All Members of the Pension Fund Committee and the Pension Fund Board have fully met the annual training requirements. Members are recommended to prioritise their attendance at training sessions wherever possible to ensure they can participate in the complicated activities of the Committee with the benefit of detailed knowledge imparted through these sessions.

4.6 The Training Policy, introduced in June 2017 the additional requirement for all Members of the Pension Fund Committee and Pension Fund Board to fully complete the Pension Regulators Trustees Toolkit within 6 months of taking up the role. The toolkit has been completed by all members of the Committee and seven members of the Board. The remaining member of the Board has part completed the toolkit and has been encourage to complete it as soon as possible.

4.7 Members are also required to attend at least two of the Joint Pension Fund Committee and Pension Fund Board meetings per year. The table below shows the attendance rates for both the Pension Fund Committee and Pension Fund Board Members. An additional meeting was held in 2021/22 to approve the final audited accounts due to revised audit completion dates.

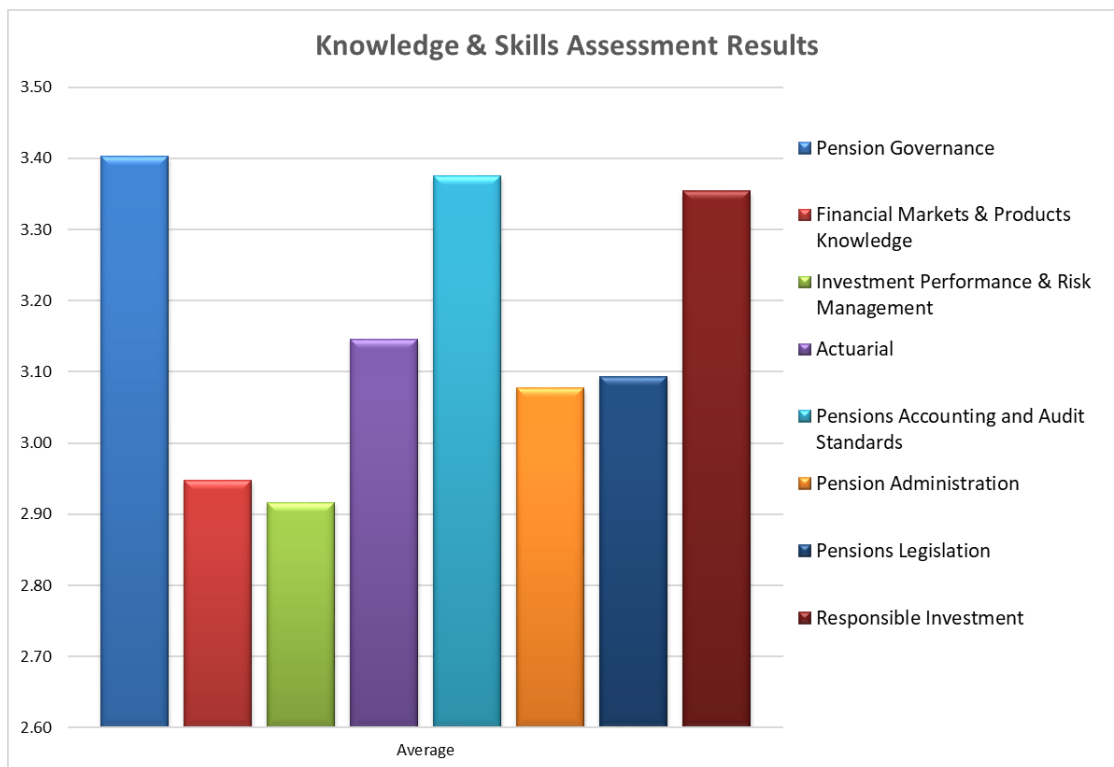
	<b>Committee Members</b>	<b>Board Members</b>
5 meeting	4	-
4 meetings	2	5
3 meeting	-	2
2 meetings	-	-
Less than 2 meetings	1	1
Total	7	8

4.8 Six Members of the Pension Fund Committee and seven members of the Pension Fund Board have met the attendance requirement. Members of the Board and Committee have been reminded of their attendance requirements and the dates for the 2022/23 meetings have been circulated and are included quarterly in the information update.

## **5 TRAINING NEEDS ANALYSIS**

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

5.2 Due to recent local elections and the staff turnover in two of the employer organisations overall assessed scores have reduced from the 2021/22 assessments. The graph over the page details the average score for each of the areas.



## 6 TRAINING PROGRAMME

6.1 The Local Government Pension Scheme (Scot) Officers Group will be arranging the 2022 training event to cover many of the areas identified above. Due to ongoing COVID19 restrictions the event will be held as a virtual event.

2022-23 training plan	
Topic	Training Objective
Financial Markets and Products	To increase understanding of current markets and investment products and also highlight new investment products and markets
Investment performance & risk management	To increase understanding of investments performance measurement.
Pension Administration	To increase knowledge and understanding of the pension administration function and key processes.
Pension legislation	To increase general knowledge and awareness of the regulatory environment for general Pensions.

- 6.2 The formal and virtual training events will also be supplemented by the continuation of the informal meetings prior to the Pension Fund Investment and Performance Committee meetings to allow members to be properly briefed by officers and the independent investment adviser on relevant matters prior to the meeting with the Fund Manager.
- 6.3 Additional external training opportunities that occur during the year will augment the proposed training programme. The Pension and Investment Manager will highlight these to the Pension Fund Committee and the Board for agreement on relevance and for the nominations of attendees.

## **7 IMPLICATIONS**

### **7.1 Financial**

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

### **7.2 Risk and Mitigations**

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

### **7.3 Integrated Impact Assessment**

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

### **7.4 Sustainable Development Goals**

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

### **7.5 Climate Change**

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

### **7.6 Rural Proofing**

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

### **7.7 Data Protection Impact Statement**

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

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

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

**8 CONSULTATION**

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

**Approved by**

**David Robertson**  
**Director Finance & Corporate Governance**

**Signature .....**

**Author(s)**

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

**Background Papers:**

**Previous Minute Reference:** 10 June 2021 - Pension Fund Committee and Pension Fund Board

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

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 PSA Tel: 01835 825249 Fax 01835 825838. email: [t&cteam@scotborders.gov.uk](mailto:t&cteam@scotborders.gov.uk)

# **SCOTTISH BORDERS COUNCIL PENSION FUND TRAINING POLICY**

**Finance  
Chief Executives Department  
Version: Final Approved 13 June 2019**



## 1. Introduction

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

## 2. Myners Principles

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

*progress made.*<sup>1</sup>

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

### 3. Governance Compliance

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

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

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

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

- 3.3 In addition, the Scottish Public Pensions Agency (SPPA) issued guidance in relation to the Governance Compliance Statement in April 2011, establishing the best practice standard that administering authorities are required to measure themselves against. The standards established for training are as follows:
  - i That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
  - ii That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
  - iii That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

### 4. Training

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

---

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

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

## 5. Reporting and Review Arrangements

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

## 6. Reimbursement of Expenses

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

## CIPFA Knowledge and Skills Framework

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

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

## VERSION CONTROL TABLE

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

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

Contact us at Pension & Investment Team, Council HQ, Newtown St Boswells, TD6 0SA  
01835 825016, [t&cteam@scotborders.gov.uk](mailto:t&cteam@scotborders.gov.uk)

## APPENDIX 2 – Average scores 2021

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

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





---

## **BUSINESS PLAN 2022/23 – 2024/25**

**Report by Director Finance & Corporate Governance**

---

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

**29 June 2022**

---

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

- 1.1 **This report presents the draft Pension Fund Business Plan 2022/23 – 2024/25 for approval by Committee.**
- 1.2 Best practice suggests that having a business plan for the pension fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1 contains the first Pension Fund Business Plan, covering the period 2022/23 – 2024/25.
- 1.3 The Business Plan 2022/23 – 2024/25 identifies an Action Plan that will be delivered during the next three years to support the aims and objectives of the Fund.

#### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Pension Fund Business Plan 2022/23 – 2024/25 as set out in Appendix 1 is approved.**

### **3 BACKGROUND**

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

### **4 PENSION FUND BUSINESS PLAN 2022/23- 2024/25**

- 4.1 Appendix 1 contains the proposed Pension Fund Business Plan 2022/23 – 2024/25 (the Business Plan).
- 4.2 The Business Plan has been developed by officers in Human Resources and Finance and uses the template developed for the Council, with some adjustments to meet the specific needs of the Pension Fund.
- 4.3 The sections of the Business Plan are:
- (a) Overview of the Pension Fund;
  - (b) A summary of what must be done;
  - (c) The Fund’s aims and objectives;
  - (d) A summary of successes and areas for improvement; including the actions completed in 2021/22 from the previous Business Plan.
  - (e) Management of Risk Summary;
  - (f) Key stakeholders;
  - (g) An overview of the Fund’s resources;
  - (h) How Performance is managed;
  - (i) The Fund’s Action Plan, including performance indicators for 2022/23 – 2024/25.
- 4.4 The Action Plan is split into three objectives which support the Strategic Aims of the Fund. These are:
- (a) Set levels of employer contributions that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund, and invest in assets that grows the Fund’s assets in such a way that produces levels of employer contribution that are as stable as possible.
  - (b) Deliver a High Quality Pension Service to Members.
  - (c) Ensure that Scottish Borders Pension Fund is managed effectively, transparently and in compliance with legal requirements.

### **5 IMPLICATIONS**

#### **5.1 Financial**

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

## 5.2 Risk and Mitigations

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

## 5.3 Integrated Impact Assessment

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

## 5.4 Sustainable Development Goals

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

## 5.5 Climate Change

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

## 5.6 Rural Proofing

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

## 5.7 Data Protection Impact Statement

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

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

No changes are required as a result of this report.

## 6 CONSULTATION

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

### Approved by

**David Robertson**

**Director - Finance & Corporate Governance**

**Signature .....**

### Author(s)

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

### Background Papers:

**Previous Minute Reference:** Joint Pension Fund Committee and Pension Board, 14 December 2021

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

Contact us at Pension & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA

Tel: 01835 825249

email: [t&cteam@scotborders.gov.uk](mailto:t&cteam@scotborders.gov.uk)

# Scottish Borders Council Pension Fund

Business Plan 2022/23 – 2024/25

Page 69

## Contents

Page No.

**About The Pension Fund**

**3**

**What we *must* do**

**4**

**Our Aims and Objectives**

**5**

**Our Successes, Areas for Improvement and Self-Assessment**

**6**

**Managing Our Risk**

**7**

**Our Key Stakeholders**

**9**

**Our Resources**

**10**

**Managing Our Performance**

**11**

**Our Action Plan**

**13**

Page 70

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

### About the Pension Fund

This section gives an overview of our services.

#### Local Government Pension Scheme

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

#### Pension Fund Funding & Investments

- **£909.3m Net Assets** under management
- **110%** of estimated liabilities as 31 March 2020 funded – per Triennial Actuarial Valuation
- 17 Investment Managers managing funds under 32 different mandates
- Investments in Equities, Gilts & Bonds, Alternative Assets, Private Credit, Property and infrastructure
- Accounting and Administration of Investments undertaken by the Council's Pensions and Investments Team
- AVC option provided by Standard Life

#### Pension Fund Governance

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

#### Pensions Administration

- **12,178 members** – 4,703 actively contributing to the Fund
- **4,281 pensioners** in receipt of LGPS pension from the scheme amounting to **£25.96m p.a. in pension benefit payments**
- 17 Employer Bodies – Scottish Borders Council with 88.4% of the membership
- Administration of Pension Benefits undertaken by the Council's HR Shared Services Team

### What we *must* do

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

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

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

**Key:** **Legislative power**, i.e. by statute, **Duty to**, i.e. list of main legal duties, **Other Directive(s)**, i.e. not covered by statute, **Mandatory**, i.e. we have to, **Discretionary**, i.e. we have the power to but not required to, **Partnership / Service Level Agreement (SLA)**, i.e. done in partnership / on behalf of



### Our Aims and Objectives

#### Primary Aim of the Pension Fund

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

Achieved through the following Objectives:

#### Funding Objectives of the Pension Fund

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

#### Pensions Administration Objectives of the Pension Fund

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

#### Governance Objectives of the Pension Fund

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

### Our Successes, Areas for Improvement and Self-Assessment

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

	Successes	Areas for Improvement/Development
<b>Pensions Administration</b>	<ul style="list-style-type: none"> <li>Annual Benefit Statements issued on time</li> <li>Implementation of the Members Self Service for active and deferred members</li> <li>Continual review of manual off-system processes to ensure they are fit for purpose and making use of technology where possible, to facilitate the hybrid working arrangements</li> <li>Processed payments to pensioners in accordance with recognised timelines in all instances</li> <li>Provision of member details to Fund Actuary as required</li> <li>Recalculation of Pension Benefits following delayed implementation of Pay Award for SBC scheme members</li> </ul>	<ul style="list-style-type: none"> <li>Continue to improve engagement with Employers and potential scheme members via website</li> <li>Continue to promote the benefits of Members Self Service</li> <li>Changes to the models of service delivery will require increased focus on the admitted bodies and their agreements</li> <li>Finalise the GMP reconciliation project</li> <li>Implementation of I-connect to increase automation of provision of employer information to the Fund</li> <li>Look at digitisation of scheme member records to support shift to hybrid working</li> </ul>
<b>Pension Funding and Investments</b>	<ul style="list-style-type: none"> <li><b>3 year performance</b> to March 2022 with investment returns of 7.7% on a rolling 3 year annualised basis compared to a benchmark of 8.7%</li> <li><b>1 year performance of 5.9% against benchmark of 10.6%, in a very volatile market conditions</b></li> <li>Review and improvement to Responsible investment including identification of key priorities</li> <li>Review of strategic asset allocation and good progress on its implementation.</li> <li>Stability of Employer Contribution Rates over successive Triennial Valuations</li> </ul>	<ul style="list-style-type: none"> <li>Further develop the Funds policy and monitoring approach to Responsible Investment</li> <li>Implement actions required to become signatories of Stewardship Code.</li> <li>Progress data collection for future TCFD reporting requirements</li> </ul>
<b>Pension Fund Governance</b>	<ul style="list-style-type: none"> <li>Completion of 2021/22 Training program</li> <li>Regular reviews of Risk Register</li> <li>No actions arising from External Audit of the Annual Report &amp; Accounts 2020/21</li> <li>Responding to consultations either individually or collectively with other Scottish LGPS Funds</li> </ul>	<ul style="list-style-type: none"> <li>Continue to develop the knowledge and skills for all members of Pensions Committee and Board</li> <li>Updating of all Policy and Strategy documents in line with the legislative changes</li> <li>Review and implementation of TPR Single code</li> </ul>

### Managing Our Risk

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

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

A full copy of the Risk Register was approved at the joint Pension Fund Committee and Board meeting on governance held on 29 June 2022 with actions monitored and new risks added where required throughout the year. The table below summarises the risk register, as at 31 March 2022, by the Chartered Institute of Public Finance Accountants (CIPFA) Pension risk categories:

Risk Category	Risk Assessment					
	Before Controls/Mitigating Actions			After Controls/Mitigating Actions		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	5	7	-	-	9	3
Employer	1	6	-	-	2	5
Resource & Skill	-	5	-	-	1	4
Liability	2	5	-	-	2	5
Administrative	-	8	-	-	1	7
Regulatory & Compliance	4	2	-	1	3	2
Reputation	2	4	-	-	2	4
<b>Total Number of Risks</b>	<b>14</b>	<b>37</b>	<b>0</b>	<b>1</b>	<b>20</b>	<b>30</b>

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

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

## Our Key Stakeholders

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

Page 76

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

### Our Resources

As at the 31 March 2022 the Fund's Net Assets were valued at **£909.3m**

Page 77

Investment Manager	Asset Description	31-Mar-22	
		£'000	%
Baillie Gifford	UK Equities	29,134	3.2
Baillie Gifford	Global Equities	114,705	12.6
LGIM	Managed Fund - Passive Equities	93,673	10.3
UBS	Managed Fund - Property	26,563	2.9
Blackrock	Managed Fund – Long Lease Property	121,500	13.3
Morgan Stanley	Managed Funds - Global Equities	118,980	13.0
LGT	Managed Fund - Alternatives	67,882	7.4
M&G	Managed Fund - Diversified Income	117,271	12.9
M&G	Managed Fund – Index Linked	67,080	7.3
Permira	Managed Fund – Private Credit	15,578	1.7
Partners Group	Managed Fund – Private Credit	31,517	3.5
Macquarie	Infrastructure Debt	53,053	5.8
Various (through LPFI)	Infrastructure	33,787	3.7
Cash	Internal	21,625	2.4
		<b>912,348</b>	<b>100</b>

During the financial year 2021/22 the benefits payable and contributions receivable from members and employers within the Fund were as follows:

	2021/22	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	22,361	18,597
Scheduled Bodies	845	990
Admitted Bodies	2,184	3,007
<b>Total</b>	<b>25,390</b>	<b>22,594</b>

### Managing Our Performance

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

#### Pension Administration

- The **Pension Administration Strategy** (approved in December 2021) sets out the service standards that Employers can expect from the Fund and those expected from each Employer within the Fund.
- The annual performance against these service standards and performance measures set out in the Pensions Administration Strategy will be reported to the joint Pension Fund Committee/Pension Board meeting and then incorporated into the Fund's Annual Report and Accounts.

#### Investment Performance

- The **Statement of Investment Principles** (approved 17 March 2022) sets out the target long-term annual investment return for the Fund's assets of at least 3.8%. It also details the performance targets for each of the investment fund managers used by the Fund to benchmark returns, the service standards that Employers can expect from the Fund, and those expected from each Employer within the Fund.
- The quarterly performance report by the Investment Adviser is reviewed at the joint Pension Fund Committee/Board meetings. In addition, all of the investment managers attend at least one of the 4 monthly meeting of the Pension Fund Investment and Performance Sub-Committee to present a more comprehensive update on their performance.
- The Fund's Annual Report and Accounts will report the annual position and the annualised three year rolling average performance of the Fund and compare this against the Fund's benchmark and other Local Authority Pension Fund performance.

#### Funding Levels

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

#### Governance

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

### **Statutory returns**

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

### **Benchmarking**

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

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

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

Page 79

Return on Investment as at 31/3/2021	1 year rolling return		3 year rolling return	
	Fund %	Bench <sup>1</sup> %	Fund %	Bench <sup>1</sup> %
<b>Total Fund</b>	<b>5.9</b>	<b>10.6</b>	<b>7.7</b>	<b>8.7</b>
Global Equities including UK	0.5	14.0	<b>12.3</b>	14.7
UK Equities	0.9	13.2	<b>2.5</b>	5.6
Bonds	2.9	3.9	<b>4.5</b>	3.5
Property	8.1	5.3	<b>6.3</b>	4.7
Alternatives	17.3	15.0	<b>6.1</b>	7.2
Cash	-		-	-

### Our Action Plan

#### Actions successfully completed during 2021/22

Key Tasks	PI ref.	Actions	Completed
Monitor and report investment performance	P1-A1	Fund Investment Performance at Benchmark on quarterly basis	Presented quarterly to Joint meeting
Approval and implementation of 2020 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P1-C1	Correct employer contribution rates in Pensions System for each employer	Correct contribution rates collected from each employer. Funding Strategy Statement approved by Committee 10 June 2021 and updated 17 March 2022.
	P1-C2	Pension Fund Committee approval of Funding Strategy Statement	
Review Strategic asset allocation following completion of 2020 valuation	P2-A1	Undertake full review of strategic asset allocation	Completed and approved by Committee 10 June 2021
Implementation of approved strategic asset allocation	P2-B1	Agree plan for implementation of approved strategic asset allocation	Completed and approved by Committee 10 June 2021. Update on implementation reported to Committee 14 Dec 2021
	P2-B2	Action plan for strategic asset allocation implementation	
Review Communication Strategy and Action Plan in line with best practice and technological advancements	P3-A1	Review of Communications strategy and action plan	Revised strategy approved Sept 2021
Continue to proactively manage and engage Pension Fund Employers	P3-A2	Hold Annual Employer Liaison Meeting	Regular communication and employer meeting 15 March 2022
Review all forms and communication material, including annual benefit statements	P3-A3	Annual review of all forms, communication material, including annual benefit statements	Annual Benefit statements communications were reviewed for the deferred members, with all other now via MSS. Other forms continue to be reviewed with a view to digitising wherever possible
Implementation of Self Service facility	P6-A1	Implementation and roll out of self service to all members	Rolled out in August 2021



# Scottish Borders Council Pension Fund

## Draft Business Plan 2022/23 – 2024/25

Review and update Governance Policy and Compliance Statement	P8-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2019	Completed and approved 22/6/20
Review and update Pensions Administration Strategy	P9-A3	Pension Fund Committee approval of Pensions Administration Strategy	Completed and approved 14/12/2021
Develop and deliver 2020/21 Training Programme	P8-A2	Pension Fund Committee approval of Training Policy 2020 and Training Programme 2020/21	Completed and approved 22/6/20
	P8-A4	Training Needs Self-Assessment Levels from 2019/20 to 2020/21	
Review and update Responsible Investment Policy and annual reporting	P8-A5	Review current and developing best practice for responsible investment	Monitoring report approved 24/9/20
	P8-A6	Review current and developing best practice for responsible investment	Responsible Investment policy updated and approved 14 Dec 2021. Work commenced to implement
Review services provided by IT providers to ensure data is secure and adheres to cyber security requirements	P9-A1	Request assurance of cyber security policy being in place from Aquila Heywood	Completed for 2021/22 with updates provided to Committee at December and March meetings
	P9-A2	Request assurance of cyber security policy being in place from CGI	
	P9-A3	Request assurance of cyber security policy being in place from Hymans Robertson	
Undertake procurement exercise for Investment Advisor	P10-A1	Undertake procurement exercise for Investment Advisor (current contract end 31/3/2021)	Completed and approved 10/3/21

# Scottish Borders Council Pension Fund

Draft Business Plan 2022/23 – 2024/25

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

## What we want to achieve ... (Objective)

Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund, and invest in assets that grows the Fund's assets in a such a way that produces levels of employer contribution that are as stable as possible

How?			By whom?	By when?			IIA	
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	22/23	23/24	24/25	
P	1	<b>Review Pension Strategies informed by 2023 Triennial Valuation Results</b>						
		Monitor and report investment performance	P1-A1	P&I Manager	•	•	•	
		Undertake and complete Triennial valuation.	P1-B1 P1-B2	HRSS Manager P&I Manger		•		•
		Approval and implementation of 2023 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P1-C1 P1-C2	HRSS Manager P&I Manager		•	•	•
P	2	<b>Maximise investment performance</b>						
		Review Strategic asset allocation following completion of 2023 valuation	P2-A1	P&I Manager			•	
		Implementation of approved strategic asset allocation	P2-B1 P2-B2	P&I Manager	•			

# Scottish Borders Council Pension Fund

Draft Business Plan 2022/23 – 2024/25

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

# Scottish Borders Council Pension Fund

Draft Business Plan 2022/23 – 2024/25

## What we want to achieve ... (Objective)

Deliver a High Quality Pension Service to Members

How?			By whom?	By when?			IIA	
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	22/23	23/24	24/25	
P	3	<b>Develop and Implement an effective Communication Strategy for the Pension Fund</b>						
		Review Communication Strategy and Action Plan in line with best practice and technological advancements	P3-A1	HRSS Manager	•	•	•	
		Continue to proactively manage and engage Pension Fund Employers	P3-A2	HRSS Manager	•	•	•	
		Review all forms and communication material, including annual benefit statements	P3-A3 P3-A4	HRSS Manager P&I Manager	•	•	•	
P	4	<b>Ensure stability of Employers</b>						
		Review of Employer covenants	P4-A1 P4-A2	HRSS Manager	•			
P	5	<b>Ensure accuracy of Pension Records</b>						
		Complete full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC	P5-A1 P5-A2	HRSS Manager	•			
		Consider the implications of the McCloud case	P5-A3	HRSS Manager	•			
		Consider the implications of the Goodwin case	P5-A4	HRSS Manager	•			
		Information requirements for Dashboard	P5-A5	HRSS Manager	•	•		
		Stronger Nudge on Pensions	P5-A6	HRSS Manager	•			
		Introduce Overpayment Policy	P5-A7	HRSS Manager	•			
		Review Privacy Notice	P5-A8	HRSS Manager	•			
P	6	<b>Promotion of self service facility</b>						
		Promotion and Improvement of self service facility	P6-A1 P6-A2	HRSS Manager	•	•		

# Scottish Borders Council Pension Fund

Draft Business Plan 2022/23 – 2024/25

				P6-A3				
<b>P</b>	<b>7</b>	<b>System improvements to support home working</b>						
			Consider implementation of workflow	P7-A1	HRSS Manager	•		
			Implementation of i-Connect for large employers	P7-A2	HRSS Manager	•		
			Digitisation of historical records	P7-A3	HRSS Manager	•		
			Continued promotion of availability for online payslip and P60's	P7-A4	HRSS Manager	•		

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Non-recurring	Qtr	Ann
P3- A1	Review of Communications strategy and action plan	30/09/2022			•
P3-A2	Hold Annual Employer Liaison Meeting	1 meeting by 31/03/2023			•
P3-A3	Annual review of all forms, communication material, including annual benefit statements	31/08/2022			•
P3-A4	Development and publication of newsletter for publication and inclusion on Pension Fund web-site	31/12/2022		•	
P4-A1	Review of admission agreement	31/12/2022	•		
P4-A2	Review of employer guarantees	31/12/2022	•		
P5-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	30/09/2022	•		
P5-A2	Review of Common and Specific Data following annual review and return to The Pension Regulator.	31/12/2022			•
P5-A3	Review all guidance and communication on McCloud case implications	31/03/2023	•		
P5-A4	Review all guidance and communication on Goodwin case implications	31/03/2023	•		
P5-A5	Review all guidance and communication of Pensions Dashboard, engaging with Pension Admin system provider as necessary	31/12/2023			•
P5-A6	Review all guidance and communication on Stronger Nudge on Pensions	30/09/2022	•		
P5-A7	Present Overpayment Policy to Pensions Committee to improve governance arrangements	30/09/2022	•		
P5-A8	Review the Privacy Notice to ensure this is in line with current data requirements	31/12/2022			•
P6-A1	Promotion of self service to all active and deferred members	31/08/2022			•
P6-A2	Implementation of updated version of Self Service on a like for like basis	30/6/2023	•		
P6-A3	Consider additional enhancements being developed for Self Service	30/6/2023	•		

# Scottish Borders Council Pension Fund

Draft Business Plan 2022/23 – 2024/25

P7-A1	Implementation of workflow	31/12/2022	•		
P7-A2	Implementation if i-Connect	31/12/2022	•		
P7-A3	Digitisation of historical records	31/12/2023	•		
P7-A4	Promotion of online payslips and P60's	31/03/2023			

## What we want to achieve ... (Objective)

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

How?			By whom?	By when?			EIA	
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	22/23	23/24	24/25	
<b>P 8</b>	<b>Continue to develop robust governance and risk management</b>							
		Review and update Governance Policy and Compliance Statement	P8-A1	P & I Manager	•			•
		Develop and deliver 2021/22 Training Programme	P8-A2 & A4	P & I Manager	•			
		Implement monitoring per Responsible Investment Policy	P8-A5 & A6	P & I Manager	•			
		Review and update Pensions Administration Strategy	P8-A3	HRSS Manager	•	•	•	•
		Ensure the Pension Fund in prepared to meet any future reporting requirements from the Stewardship Code 2020	P8-A7 & A8	P & I Manager	•	•		
		Implementation of The Pension Regulator "Single Code"	P8-A9 & A10	HRSS Manager P&I Manager	•			
<b>P 9</b>	<b>Review services provided by IT providers to ensure data is secure and adheres to cyber security requirements</b>							
		Implement annual assurance requirement for IT providers	P9-A1, A2 & A3	HRSS Manager	•	•	•	•

# Scottish Borders Council Pension Fund

Draft Business Plan 2022/23 – 2024/25

P	10	<b>Review services provided externally to ensure that these represent best value to the Fund</b>							
			Undertake procurement exercise for Custodian	P10-A1	P & I Manager		•		
			Undertake procurement exercise for Actuary	P10-A2	HRSS Manager P&I Manager			•	
			Under review of provision of Pension Administration system	P10-A3	HRSS Manager		•		

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Non Recurring	Qtr	Ann
P8-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2020	30/06/2022			•
P8-A2	Pension Fund Committee approval of Training Policy 2020 and Training Programme 2021/22	30/06/2022			•
P8-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/2022			•
P8-A4	Training Needs Self-Assessment Levels from 2020/21 to 2021/22	30/06/2022			•
P8-A5	Agree Action plan for implement of Responsible Investment monitoring	30/06/2022	•		
P8-A6	Provide revised responsible investment monitoring report format	31/12/2022			•
P8-A7	Undertake review of Stewardship Code 2020 and recommendations for adherence	31/12/2022	•		
P8-A8	Implement recommendation from Stewardship Code review	30/09/2022	•		
P8-A9	Undertake review of TPR Single code and highlight changes required to meet the new code	30/09/2022	•		
P8-A10	Implement changes required to meet code requirements	31/12/2022	•		
P9-A1	Request assurance of cyber security policy being in place from Aquila Heywood on an annual basis	30/09/2022			•
P9-A2	Request assurance of cyber security policy being in place from CGI on an annual basis	30/09/2022			•
P9-A3	Request assurance of cyber security policy being in place from Hymans Robertson on an annual basis	30/09/2022			•
P10-A1	Undertake procurement exercise for Custodian	30/09/2023	•		
P10-A2	Undertake procurement exercise for Actuary	31/12/2024	•		
P10-A3	Under review of provision of Pension Administration system	31/03/2023	•		

### Additional Information

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

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

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

[www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)

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

Contact us at: -

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

01835 825249, [krobb@scotborders.gov.uk](mailto:krobb@scotborders.gov.uk)

Ian Angus, HR Shared Services Manager, Council HQ, Newtown St Boswells

01835 826696, [iangus@scotborders.gov.uk](mailto:iangus@scotborders.gov.uk)



---

## **RISK REGISTER UPDATE**

**Report by Director Finance & Corporate Governance**

---

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

**29 June 2022**

---

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

- 1.1 This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an updated full register and proposed management actions to mitigate the identified risks.**
- 1.2 Identifying and managing risk is a cornerstone 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 "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 1.3 A virtual risk workshop was held on 4 May 2022 with Officers from relevant Departments to review and update the full risk register. The output of this is shown in Appendix 1.
- 1.4 A summary of the changes made during the review are detailed in para 4.3.
- 1.5 There were no new risks identified during the review.
- 1.6 In line with the Council's Risk Management Policy (2018) a paper to be presented at the September 2022 meeting will report progress on the management actions and present any new risks for consideration.

#### **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee and Board:**
  - (a) Agrees the updated Full Risk register as contained in Appendix 1; and**
  - (b) Agrees to an update on progress of management actions to be presented in September 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 2022/23 – 2024/25, to be presented for approval on 29 June 2022, sets out the aims and objectives of the Pension Fund. These aims and objectives were fully considered and recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

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

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

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

## 4 RISK REGISTER UPDATE

- 4.1 A full risk workshop was undertaken on 4 May 2022 by Officers from the Pension and Investment Team and Human Resources Shared Services in order to ensure that the risk register's contents were still relevant and up-to-date. The outcome of the workshop is detailed in Appendix 1.
- 4.2 There are 51 risks identified in the register, of which 14 are red risks prior the application of internal controls. The current identified controls reduce the red risks to one. There are 21 risks with identified management actions, which will improve and add to the current controls.
- 4.3 The following risks have been updated from the previous risk register

Risk no.	Update
1.3 and 1.6	Current controls updated to reflect further diversification resulting from Strategy review
1.9	Current controls updated to reflect implementation of revised Investment Strategy
1.12 and 7.6	Current controls updated Responsible Investment policy and planned implementation of improved monitoring of it
2.1	Current controls updated to reflect next valuation cycle
2.2	Current controls updated to reflect monitoring between cycles and additional monitoring requirements for SOSE as new employer with growing employees
2.3	Current controls updated to reflect work identified for review of admission agreements and inclusion of cessation responsibilities into the Funding Strategy Statement
3.2	Score updated to reflect continued monitoring and meeting of training policy
3.3 and 3.4	Current controls updated to reflect additional Treat to reflect the monitoring of training policy
4.4	Current controls updated to reflect no recent ER/VS applications
4.5, 6.1 and 6.2	New treat included to reflect implementation of The Pension Regulator – Single Code
4.6	Current controls updated to reflect implementation of regular cashflow reporting to Committee
5.5	Current controls updated to reflect mandatory refresh training requirements for all staff on GDPR
5.6	Current controls updated to reflect recent implementation of Member Self-service
5.8	New treat included to reflect specific transfer training and it cascade to the service

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

## 5 IMPLICATIONS

### 5.1 Financial

There are no direct financial implications of this report.

### 5.2 Risk and Mitigations

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

### 5.3 Integrated Impact Assessment

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

### 5.4 Sustainable Development Goals

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

### 5.5 Climate Change

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

### 5.6 Rural Proofing

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

### 5.7 Data Protection Impact Statement

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

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

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

## 6 CONSULTATION

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

### Approved by

**David Robertson**

**Director 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 22 March 2022

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

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

This page is intentionally left blank

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
1.1	Asset & Investment	Failure to achieve the target investment returns set out in the Statement of Investment Principles over the longer term may lead to significant increased employer contribution rates and costs of implementing changes to the investment strategy.	Inappropriate strategic asset allocation for Fund's requirements; Inappropriate investment approaches within asset class; Underperformance/ negative investment returns from investments under management; Significant and sustained market and economic events creating adverse movements in valuations; Investment Strategy inconsistent with Funding Strategy.	Significant rises in the employer contributions; Costs involved in implementing changes to investment strategy; Funding Deficit for Fund.	Ongoing	Pension Fund Committee/ Dir Finance & Corp Govern	4	3	12	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards  <b>TOLERATE</b>	Effective	4	3	12
1.2	Asset & Investment	Failure of Fund's Custodian may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Inaccurate recording of asset transactions; Financial or internal controls fail to prevent fraud or misappropriation; Organisational failure resulting in closure of business/cessation of trading.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fun Committee/Dir Finance & Corp Govern	4	3	12	Robust procurement processes around the custodian; Reconciliation of Custodian to Investment Manager Records; Monitor custodian performance and credit rating; Monitoring of financial media; Covered by legal contract; Regulated by FCA, assets not on custodian balance sheet; Receipt of annual controls reports from Custodian's External Auditors; Annual External Audit Process; Legal recourse within contracts. Annual reviews undertaken with Custodian and Investment manger  <b>TOLERATE</b>	Effective	2	2	4
1.3	Asset & Investment	Failure of one of the Fund's Investment Manager may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Investment Manager's framework of controls does not prevent fraud, misappropriation or erroneous investment activity; Investment Manager's business model fails.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fun Committee/Dir Finance & Corp Govern	5	3	15	Robust procurement processes around the managers; Engagement with Investment Adviser in relation to monitoring external environment in respect of the individual managers; Reconciliation of Custodian to Investment Manager Records; Further Diversification of investment managers; Continual monitoring of investment performance; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Regulated by FCA; Receipt of annual controls reports from Investment Managers' External Auditors; Legal recourse within contracts  <b>TOLERATE</b>	Effective	3	3	9

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
1.4	Asset & Investment	Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels	Committee ignores advice provided by expert adviser. External adviser provides inappropriate/inaccurate/ insufficient advice to Committee/Officers.	Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates.	Ongoing	Pension Fund Committee/ Dir Finance & Corp Govern	5	4	20	Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role  <b>TREAT</b> Ongoing training for elected members of the Pension Board and Committee	Effective	4	2	8
1.5	Asset & Investment	Failure to manage Currency risk may lead to an inability to maximise the returns from investments with the agreed risk parameters resulting in an adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions impacting on currency rates	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Ongoing	Dir Finance & Corp Govern	3	4	12	Follow advice of external advisers that fund should take long term view of currency fluctuations;  <b>TOLERATE</b>	Partially Effective	3	3	9
1.6	Asset & Investment	Failure to react to major changes in market/economic conditions may lead to an inability to manage the fund properly resulting in significant adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Ongoing	Dir Finance & Corp Govern	4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Diversification of asset classes, geographical spread and investment managers; Scrutiny of Strategic Asset Allocation and Investment performance by Investment & Performance Sub-Committee;  <b>TOLERATE</b>	Effective	3	3	9
1.7	Asset & Investment	Underperformance of Investment Manager(s) may lead to financial losses for the Fund resulting in the inability to achieve the target investment returns set out in the Statement of Investment Principles which over the longer term may lead to significant increased employer contribution rates and costs of implementing changes in investment managers.	Underperformance/ negative returns from investments under management as a result of individual management approach/actions.	Financial loss which may lead to significant increased employer contribution rates and costs of changing investment managers	Ongoing	Pension & Investment Manager/ Pension Fund Committee/Dir Finance & Corp Govern	3	4	12	Robust procurement processes around the managers placed on short lists; Diversification of investment managers; Continual monitoring of investment performance against benchmark, targets and tolerance; Engagement with Investment Adviser in relation to monitoring external environment and setting benchmarks in respect of the individual investment managers; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Monitoring of financial media; Immediate action would be considered and removal of funds to Transition Manager.  <b>TOLERATE</b>	Effective	2	3	6
1.8	Asset & Investment	Insufficient scrutiny of manager mandates and terms of business may lead to a failure to manage the Fund properly resulting in inappropriate fee levels and other costs.	Lack of information from fund managers; Lack of capacity within pension fund team and advisers;	Inappropriate fee levels and other costs.	Ongoing	Pension & Investment Manager	2	3	6	Detailed monitoring in place for the investment managers where direct investments held, higher level monitoring for unitised funds;  <b>TOLERATE</b>	Partially Effective	1	3	3



# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
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 Govern	3	3	9	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. Investment strategy completed post valuation.  <b>TREAT</b> Implementation of asset strategy approved June 2021	Effective	2	2	4
1.10	Asset & Investment	Failure of Funds investment returns to keep pace with growth in liabilities due to pay and CPI Inflation increase, which may lead to Funding Levels falling and potentially requiring increases in employer contribution rates.	General economic climate results in higher CPI inflation and investment returns do not keep pace due global investment markets and economies	Funding levels fall, Employers pay more contributions into Fund.	ongoing	Dir Finance & Corp Govern	4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards  <b>TOLERATE</b>	Effective	3	4	12
1.11	Asset & Investment	International pandemic resulting in crash of global economy and financial markets	whole scale crash of financial markets which would have direct effect on investment returns.	Funding levels falls, Employers pay more contributions into Fund.	Ongoing	Pension Fun Committee/Dir Finance & Corp Govern	4	5	20	Diversification of assets and managers Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards  <b>TOLERATE</b>	Partially Effective	2	3	6
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 Govern	3	4	12	Responsible Investment Policy in place and monitored. Only invest with Fund Managers who have strong ESG credentials. Updated Responsible investment policy with agreed priorities  <b>TREAT</b> Plan to be agreed and implemented for monitoring of responsible investment policy and climate data.	Partially Effective	3	3	9

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
2.1	Employer	Failure to apply and demonstrate fairness in the treatment of different fund employers may lead to improper management of the Fund and result in inappropriate employer contribution rates or cross-subsidisation of employers out with the agreed pooling arrangements.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates or cross-subsidisation of employers out with the agreed pooling arrangements leading to a shortfall of funding or over charging of an employer.	Ongoing	Pension Fun Committee/Dir Finance & Corp Govern	3	4	12	Next valuation planned for 2023; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA SOSE & CGI to reflect employer situations. Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. Annual declaration now required from each employer. Annual Declaration includes changes of to scheme membership for current and future year.  <b>TOLERATE</b>	Effective	3	1	3
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 Govern	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2020 valuation commenced; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA, CGI & SOSE to reflect employer situations; Annual declaration made by each Employer for forth coming changes Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed.  <b>TREAT</b> Monitoring of implementation of 2020 valuation rates Continued monitoring of SOSE and consider mid cycle valuation	Effective	2	2	4
2.3	Employer	Failure of a Scheme Employer may lead to a shortfall in the funding levels of whole Fund resulting in increases for all other employers contributions	Scheme employer ceasing to operate	Shortfall in fund as a whole with increases required in all other employers contributions	Ongoing	Pension Fund Committee/ Dir Finance & Corp Govern	4	3	12	Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey and CGI, and Council agreement in place for Live Borders; Guarantee in place with SG for SOSE; Contribution rates based on open/closed status of employer; Updated Admission Agreement and formal consideration of support at initial set up now implemented; Movement to closed scheme requires actuarial review, results then implemented. Funding Strategy Statement revised to include cessation responsibilities  <b>TREAT</b> Undertake review of admission agreements	Effective	3	2	6

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
2.4	Employer	Failure to understand and be involved in proposed structural changes in employers' engagement in the Scheme may lead to failure to manage the transition to a different level/type of participation by the employer in the Fund resulting in inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer.	Failure by employer to notify the fund of significant changes of membership; Changes to composition of employees; Fund participation no longer affordable to an employer.	Failure to manage the transition to a different level/type of participation by the employer in the Fund; Inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer. Fund reaches maturity more quickly; Adverse impact on cash flow and funding levels	Ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	3	4	12	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Communication strategy approved and website launched Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year.  <b>TOLERATE</b>	Effective	2	2	4
2.5	Employer	Loss of income for employer resulting in inability to fund contributions	Global pandemic resulting in closure of facilities Loss of income due to global economy crash	Failure of employer to pay contributions loss of cash flow to pay pensioners	ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	3	5	15	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year.  <b>TREAT</b> Undertake review of admission agreements and guarantees	Partial Effective	2	5	10
2.6	Employer	Deteriorating patterns of early retirements	Increased ill health retirements leading to employers requirement to fund strain on fund	Inability for employers to be able to fund ill health retirements strain on fund	ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	2	4	8	Ill health retirements monitored, requirement for employers to fund strain on fund included in revised Funding Strategy Statement Monitoring of cost of ill health retirements in place  <b>TOLERATE</b>	Partial Effective	1	2	2
2.7	Employer	Employer default	Employer ceasing to exist and bond/guarantee being insufficient to fund exit costs	Incurred deficit having to be covered by remaining employers	ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	2	3	6	Bonds and guarantees monitored on regular basis Annual meetings held with Employers to assess their position. All employers required as part of annual return to outline any upcoming structural changes within organisation which may effect pension fund position  <b>TOLERATE</b>	Partial Effective	1	2	2
3.1	Resources & skills	Over reliance on key officers may lead to significant knowledge gaps resulting in failure to manage the Fund effectively.	Available resource; Requirement to maintain admin costs; Absence of succession management in relation to supporting crucial aspects of the operation of the Fund.	May lead to significant knowledge gaps resulting in failure to manage and operate the Fund effectively.	Ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	3	4	12	Use of external advisers (investment/tax/SPPA) provides additional resilience and resources. Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Teams structured to reduce single points of failure and manage succession planning. Procedure notes written tested, system of regular review agreed  <b>TOLERATE</b>	Effective	2	2	4

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
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 Govern	2	4	8	Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board  <b>TREAT</b> Annual monitoring and reporting of training undertaken	Effective	2	2	4
3.3	Resources & skills	Over reliance on key Members of the Board or Committee may lead to lack of challenge and objectivity in decision making resulting in failure to manage the Fund effectively.	Knowledge and experience gap of new members.	Failure to manage the Fund effectively.	Ongoing	Pension Fund Committee/ Pension Fund Board Chairs	3	3	9	All Members of the Pension Fund Committee and Pension Board are actively involved in the discussions with External Advisers and have access to the same information and training opportunities; Clear scheme of administration and constitutions established for the Committee and Board providing clarity of roles and responsibilities; Training Policy sets out skills and knowledge responsibilities for members. Pension Fund Committee and nominated reps of Board are actively involved in discussions with investment managers.  <b>TREAT</b> Annual monitoring and reporting of training undertaken	Effective	2	2	4
3.4	Resources & skills	Lack of sufficient knowledge and expertise on Pension Fund Committee and Board members to discharge their duties could lead to failure to manage the Fund effectively as a result of poorly considered decision making.	Knowledge and experience gap of new members.	Poorly considered decision making.	Ongoing	Pension Fun Committee/Dir Finance & Corp Govern	3	4	12	Pension Fund committee and Board have access to External Advisers and Council Officers to help advise and inform them; Pension Fund committee and nominate representatives of Board have access to Investment Managers via the Investment and Performance sub committee; Members Training Policy for Pensions Fund established, monitored and reported on annually; Annual training programme in place; Skills and training assessment undertaken annually.  <b>TREAT</b> Annual monitoring and reporting of training undertaken	Effective	2	2	4

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
3.5	Resources & skills	Failure of Officers to maintain sufficient level of competence to discharge their duties could lead to failure to manage the Fund effectively as a result of their inability to provide appropriate decision making support and advice.	Changes in legislation; New investment types and vehicles; Lack of documented procedures.	Failure to manage the Fund effectively.	Ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	3	3	9	Use of External Advisers provides additional resilience and resources; Competency appraisal process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Procedural notes completed Regular engagement with external Investment Managers to supplement knowledge.  <b>TREAT</b> Improvement in quality of procedure notes for officers. Annual review of Competency Framework for all staff	Partially Effective	2	3	6
4.1	Liability	Changes in composition of Pension Fund membership, i.e. active/deferred/pensioners may lead to insufficient assets in the Fund to meet the future liabilities as they fall due, potentially increasing employers contribution levels and changes to the investment strategy.	Variance between CPI rates and pay increases; Fewer people joining; Other employers close funds; Economic drivers to reduce workforce.	Fund Matures more quickly than currently anticipated and may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due, potentially increasing employers contribution levels and changes to the investment strategy.	Ongoing	Dir Finance & Corp Govern	5	4	20	Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met; Use of an Investment Adviser and Actuarial services as and when required: Implementation of Auto-enrolment completed by July 2017, further re-enrolment to take place 2019 for SBC, will follow the three year cycle; Pension Administration Strategy in place and monitored and Employer Liaison Group; Annual Report includes analysis of membership changes. Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; Estimated monthly cash flow completed and monitored. Investments identified to supplement funding gap  <b>TOLERATE</b>	Partially Effective	2	2	4
4.2	Liability	If employees can no longer afford to participate in the scheme then there may be reduced income into Fund resulting in a change being required to the Funding and Investments Strategy due to changes in participation levels.	Economic circumstances; Potential increases to employee contributions due to central Govt. decisions; Changes to tax relief on pensions.	Reduced income into Fund resulting in a change being required to the Funding and Investments Strategy	Ongoing	Dir Finance & Corp Govern	4	4	16	Limited measures in place. Nationally negotiated rates/benefits with employee representatives (i.e. Trade Unions) on minimising employee contribution increases; Pay awards now being given, economy now improving; LGPS changes implementation of 50/50 option; Trade Union involvement in the Pension Board and Scheme Advisory Board; Communication issued with annual benefits statements. Communication strategy complete and website launched to promote benefits of scheme  <b>TOLERATE</b>	Partially Effective	3	2	6

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
4.3	Liability	Significant differences between Actuarial Assumptions in the Triennial Valuation Reports and reality may lead to setting Funding and Investment Strategies which may result in insufficient cash flow to fund current obligations or insufficient funding to cover future liabilities	CPI inflation; Mortality levels; Investment Returns.	Setting Funding and Investment Strategies; Insufficient cash flow to fund current obligations or insufficient funding to cover future liabilities; Increased employer contributions.	Ongoing	Dir Finance & Corp Govern	3	3	9	Full actuarial valuation undertaken on Triennial basis; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions. Any strain on fund incurred paid by employer at point of retirement; Ill health strains being monitored Regular monitoring of investment performance and where medium to long term trend in returns is identified then this will be reviewed. <b>TOLERATE</b>	Effective	2	3	6
4.4	Liability	Number and value of early retirements increases to levels in excess of the actuarial assumptions, which may lead to incorrect employer contributions being set, resulting in insufficient funding for future liabilities.	Reducing workforce.	Insufficient funding for future liabilities.	Ongoing	Dir Finance & Corp Govern	3	4	12	Full actuarial valuation undertaken on Triennial Valuation; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions; Ensure Employers contribution to strain on the fund is correctly calculated and received into the Fund; No recent applications being supported for ER/VS; Continue to monitor ER/VS applications and impacts. <b>TOLERATE</b>	Effective	2	2	4
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 Govern/ Dir People, Perform & Change	3	3	9	Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC; Monitoring will be undertaken during the year and reported to Members as part of the annual report. With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct (FCA) regulated adviser, includes signed declaration by individual; Continue to monitor ongoing legislation around this area. Communication Strategy agreed and website launched <b>TREAT</b> Review and watch to be placed on advice and guidance issued from The Pension Regulator and Government and included in the TPR Single Code.	Effective	2	2	4
4.6	Liability	Failure to manage the liquidity required for the Fund's cash flows may lead to assets being sold at unattractive times or investment opportunities missed due to unavailability of cash, resulting in an adverse impact on the valuation of the Fund's assets.	Higher than anticipated levels of retirement; Higher levels of lump sums commutation taken on retirement.	Requirement to divest investment assets at an unattractive time or missing investment opportunities which result in an adverse impact on the value of the Fund's assets	Ongoing	Pension & Investment Manager	4	3	12	Daily and weekly monitoring of Pension Fund's Cash flows; Estimated monthly cash shortfall identified. Investment strategy adjust to ensure income returned to fund to fund cash shortfall. Investment strategy monitored Cashflow monitoring and reported to Committee <b>TOLERATE</b>	Partially Effective	2	2	4

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
4.7	Liability	Changing demographics	increased early retirals, ill health retiral, withdrawal, 50:50 uptake, commutation marriage/partnership	pressure on cash flow and funding equation	Ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	3	3	9	Monitoring of active numbers and cash flow Requirement for employers structure <b>TOLERATE</b>	Partially Effective	2	2	4
5.1	Administrative	Failure to process pension payments and lump sums on time may lead to financial distress for retiring staff and potential referral to the Pensions Regulator and/or external auditor resulting in the possibility of penalty costs and reputational damage.	Insufficient information from member or employer; Lack of access to pension fund system administration information; Absence of specialist pension admin resource.	Financial distress for retired staff; Potential referral to the Pensions Regulator and/or external auditor; Potential for penalty costs to be levied; Reputational damage.	Ongoing	HR Shared Services Manager	3	3	9	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained. <b>TOLERATE</b>	Effective	2	2	4
5.2	Administrative	Failure to collect and account for contributions from employers and employees on time may lead to adverse cash flow implications for the Fund potentially resulting in adverse external audit opinion, referral to the Pensions Regulator, reputational damage and requirement to divest investments to fund the cash flow deficit.	External employers not remitting contributions on time.	Adverse cash flow implications for the Fund; Adverse external audit opinion; Referral to the Pensions Regulator; Reputational damage; Requirement to divert investments to fund the cash flow deficit.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained. <b>TOLERATE</b>	Effective	2	2	4
5.3	Administrative	Failure to provide pensions administration service due to major operational disruption could lead to inability to provide a high quality pension service to members	Loss of main office; Computer system; Staff absence.	Ability to process payments on time; Financial distress to members; Reputational risk.	Ongoing	HR Shared Services Manager	4	3	12	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. Pensions Administration System is hosted system allowing ability for homeworking; <b>TREAT</b> in line with core HR risk review full business continuity review to be undertaken.	Effective	2	3	6
5.4	Administrative	Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds.	Lack of monitoring; Lack of segregation of duties.	Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members.	Ongoing	HR Shared Services Manager	3	3	9	Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk. <b>TREAT</b> To request from each External Employers audited accounts to provide assurance on their internal controls	Effective	2	2	4

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
5.5	Administrative	Failure to hold personal data securely resulting in personal data loss, reputational damage and potential financial penalty	Lack of controls; Lack of monitoring; Lack of procedures; Lack of training and awareness.	Data lost or compromised; Reputational risk; Potential financial Penalty from Information Commissioner.	Ongoing	HR Shared Services Manager	2	3	6	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Staffing structure of HR Shared Services continues to monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained in mandatory Data Protection and fully compliant with SBC Info. Governance requirements. Mandatory GDPR course undertaken by all staff, with an annual refresh required.  <b>TOLERATE</b>	Effective	2	2	4
5.6	Administrative	Failure to keep pension records up to date and accurate may lead to incorrect pensions information being issued or incorrect benefits calculations or payments	Lack of info from members and employers; Human error; IT systems failure.	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Staffing structure of HR Shared Services continues to monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained mandatory Data Protection and fully compliant with SBC Info. Governance requirements; Annual Statements issued to active and deferred members, including list of beneficiaries. Form included for changes or discrepancies, Communication strategy approved and website launched Member self service available to all active and deferred members.  <b>TOLERATE</b>	Partially Effective	2	2	4
5.7	Administrative	Failure to communicate effectively with stakeholders in Pension Fund resulting in inability to provide high quality pensions service	Failure to issue information in a timely manner and in an easily understandable format.	Scheme members not aware of their rights resulting in bad decisions; Employers not aware of regulations, procedures, etc.	Ongoing	HR Shared Services Manager/ Pension & Investments Manager	3	3	9	Engagement in Scottish pension networks; Union and Admitted body representation on the Pension Fund Board; Publication of annual report via website and electronic copies circulated to all Scheduled and Admitted bodies; Annual reporting or performance of issuing Benefits Statements to Pension Fund Committee and Board. Communication strategy agreed and launch of website. Member self service available to all active and deferred members  <b>TOLERATE</b>	Effective	2	2	4
5.8	Administrative	Failure to ensure pension transfer payments due to/payable by the fund are calculated accurately and received/paid resulting in incorrect funds being held within the Fund to pay future benefits to individuals	Failure to ensure pension transfer payments due to the fund are calculated accurately and received	Insufficient funds transferred/received to meet future obligations; Failure to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations; Referral to the Pension Regulator; Reputational damage; Financial penalty.	Ongoing	HR Shared Services Manager	2	3	6	Pension administration system continues to provide automated support in calculation, using nationally approved scheme based on number of standard assumptions at point of transfer. Procedure reviewed regularly  <b>TREAT</b> Specific transfer training to be undertaken and knowledge transfer to then be cascade across wider team	Effective	2	2	4



# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
6.1	Regulatory & Compliance	Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation	Changes to legislation; Lack of staff training; Lack of knowledge and skills	Wrong pension payments made or estimates given; Breach of regulations; Prosecution.	Ongoing	HR Shared Services Manager/ Pension & Investments Manager	2	3	6	Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates; External Audit review extends beyond financial controls; Pension Board review of decisions; Appraisal process implemented to identify training and development requirements.  <b>TREAT</b> Annual review of Competency Framework to all staff Review and action to be developed for requirements under The Pension Regulator Single Code	Effective	2	2	4
6.2	Regulatory & Compliance	Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	Central Govt. legislation changes. 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 Govern/ Dir People, Perform & Change	5	5	25	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board;  <b>TREAT</b> Seek to input into any of the legislative change through active membership of COSLA; Review and actions to be developed for requirements under The Pension Regulator Single Code	Partially Effective	4	4	16
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 Govern	3	3	9	Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via Appraisal and attendance at appropriate training events.  <b>TREAT</b> Annual review of Competency Framework to all staff	Effective	2	2	4
6.4	Regulatory & Compliance	Changes in national jurisdictions may lead to changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes	Changes in national jurisdictions	Changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes e.g. Withholding Tax	Ongoing	Dir Finance & Corp Govern	3	5	15	Monitoring of political position via news releases and group networks.  <b>TOLERATE</b>	Partially Effective	2	5	10
6.5	Regulatory & Compliance	Changes in LGPS Structures	Review by Scheme Advisory Board on LGPS structures	Fund may cease to exist, assets may be pooled, Administration could be pooled	Ongoing	Dir Finance & Corp Govern	4	4	16	Monitoring of political position via Scheme Advisory Board  <b>TREAT</b> Actively engage with Scheme Advisory Board and consultants undertaking review	Partially Effective	3	4	12

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
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 Govern/ Dir People, Perform & Change	5	4	20	Hosted environment for pension admin Monitored and regularly improved firewalls security installed on all hardware IT contractual requirements for all IT providers  <b>TREAT</b> Continue engagement with IT providers, introduce annual assurance from providers of cyber security policy and adherence	Partially Effective	5	2	10
7.1	Reputation	Conflict of interest for Elected Members on Pension Fund Committee and Board between Council priorities and Pension Fund Management priorities may result in failure to make the best decision for the Pension Fund	Conflicts of interest; Lack of understanding of their role on the Pension Fund.	Failure to achieve Pension Fund objectives; Failure to make the best decision for the Pension Fund; Referral to the Scheme Advisory Board and/or Pension Regulator; Legal challenge.	Ongoing	Dir Finance & Corp Govern	4	4	16	Members are clear on their respective responsibilities to the Council and Pension Fund (Constitution and Code of Conduct) through training; Officers and Investment Adviser provide additional clarity and support to avoid these situations; Skills and knowledge assessment undertaken annually; Pension Board role to ensure compliance with regulatory environment.  <b>TOLERATE</b>	Effective	3	2	6
7.2	Reputation	Failure of the Fund's Governance arrangements may lead to ineffective management of the Fund resulting in reputational damage	Changes in legislation that are implemented incorrectly; Failure to follow Governance arrangements.	Ineffective management of the Fund; Reputational damage; Loss of employer confidence; Referral to Scheme Advisory Board and/or Pension Regulator; Legal Challenge.	Ongoing	Dir Finance & Corp Govern	3	3	9	Up to Date constitution for Pension Board and Scheme of Administration for Pension Fund Committee; Review of Governance structures undertaken on annual basis as part of Accounts process via compliance statement; Active participation and monitoring of changes required from LGPS 2015. Pensions Board role to support this agenda.  <b>TOLERATE</b>	Effective	2	2	4
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 Govern/ Dir People, Perform & Change	2	3	6	Identify requirements of external advisers and appoint appropriately. Annual review undertaken with Investment Advisor and Custodian.  <b>TREAT</b> Undertake annual review of Adviser;	Effective	2	2	4
7.4	Reputation	Delays in implementation of decisions resulting in reducing the effectiveness of the decision and potentially adversely impacting on the ability to maximise investment returns	Competing priorities; Lack of resources.	Reducing the effectiveness of the decision; Potentially adversely impacting on the ability to maximise investment returns; Loss incurred or reduced income received.	Ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	3	3	9	Decisions minuted and appropriate staff assigned to implement; Agreed actions monitored by Democratic Services; Implementation timescales priorities according to risk levels and available resources levels; 3 year Business Plan developed and approved on an annual basis and monitored in year by Pension Fund Committee and Board.  <b>TOLERATE</b>	Partially Effective	3	2	6
7.5	Reputation	Ultra vires pension fund actions resulting in a failure to manage the pension fund properly	Fraudulent activity; Lack of skills and knowledge;	Failure to manage the Pension Fund properly; Financial loss; Reputation damage.	Ongoing	Dir Finance & Corp Govern	4	2	8	Training provided to Members and Officers to ensure legal framework understood; Use of external advisers and contact with SPPA.  <b>TOLERATE</b>	Effective	2	1	2

# Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk			Controls		Current Risk		
							Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
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 Govern	4	4	16	Training provided to Members and Officers on their roles and fiduciary responsibility; Monitoring on quarterly basis of Segregated Portfolios voting policy contained with Statement of Investment Principles including support for UNPRI. Responsible Investment policy approved and annual monitoring report completed  <b>TREAT</b> Action plan developed for implementation of revised policy and monitoring	Partially Effective	2	2	4

This page is intentionally left blank

---

**RESPONSIBLE INVESTMENT – MONITORING  
IMPLEMENTATION PLAN**
**Report by Director Finance & Corporate Governance**


---

**JOINT PENSION FUND COMMITTEE & PENSION BOARD**
**29 June 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 The Fund undertook an initial survey which was followed by a workshop which highlighted the 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 Committee approved the 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 Appendix 1 details the action plan for the commencement of data gathering and reporting for priorities SDG13 Climate change and SDG 7 Affordable & clean energy. This will allow a baseline position to be established and to ensure the Fund is able meets it agree responsible investment monitoring requirements and TCFD reporting when required.

**2 RECOMMENDATIONS**

- 2.1 It is recommended that the Pension Fund Committee note the action plan detailed in appendix 1.**

### **3 BACKGROUND**

- 3.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. In doing so it is intended that the financial contributions required of Fund employers will be minimised.
- 3.2 Trustees of the Pension Fund also have a responsibility to ensure the Fund is undertaking its investment activities in a socially responsible way. This means the fund must be aware of its Environmental, Social and Governance (ESG) responsibilities.
- 3.3 The Committee approved the first Responsible Investment Policy on 30 November 2018. A reviewed and revised policy was approved on 16<sup>th</sup> 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.
- 3.4 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.

### **4 RESPONSIBLE INVESTMENT OBJECTIVE & METRICS**

- 4.1 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.
- 4.2 To allow the Fund to priorities its objectives and set meaningful metrics, 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.
- 4.3 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.
- 4.4 The output from the workshop was presented to the Joint Pension Fund Committee and Pension Fund Board on 17 March which approved 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

- 4.5 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 was therefore agreed these two measures were 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. The attached plan in Appendix 1 outlines the key steps and timelines required to progress the data gathering and ensure the Fund is a position to meet its TCFD and responsible investment reporting requirements.
- 4.6 Due to the data quality and availability for non-climate metrics is currently very poor it was agreed that for r SDG's 1 (No Poverty), 2 (Zero Hunger), 3 (Good Health & Well-being) and 10 (Reduce Inequalities) the Fund would actively engage with its managers to improve data and will reassess the ability to set key metrics for each of these metrics on an annual basis.

## **5 IMPLICATIONS**

### **5.1 Financial**

The additional costs required to implement the detailed plan have been incorporated in the approved budget for the Pension Fund. The costs were estimated at £33,450 for 2022/23.

### **5.2 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.

### **5.3 Integrated Impact Assessment**

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

### **5.4 Sustainable Development Goals**

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

### **5.5 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.

**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 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 17 March 2022

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

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



# Scottish Borders Council Pension Fund

## Responsible Investment Monitoring - Project Plan

**Meeting 1**

June 2022 Committee Meeting

**Project Plan**

Present RI and TCFD project plan to Committee for consideration and approval.

**Meeting 2**

Additional meeting to be held between June 2022 and September 2022

**TCFD and Climate Training**

Training for Committee members on TCFD Regulations and Climate Science

**Meeting 3**

September 2022 Committee Meeting

**RI Metrics and Targets**

Data gathering and target setting

**Governance**

Define roles and responsibilities and update risk Register

**Meeting 4**

December 2022 Committee Meeting (TBC)

**ESG/Climate Impact Assessment**

(Optional but best practice)

**Scheme Year End Date**  
(March 2023)

---

**Meeting 5**

June 2023 Committee Meeting (TBC)

**Strategy & Risk Management**

1. Risks and Opportunities (including Climate Scenario Analysis)
  2. Consider Covenant
  3. Consider Actuarial input
-

**David O'Hara**

David.ohara@isio.com

**Andrew Singh**

Andrew,singh@isio.com

**Alex Ross**

Alex.ross@isio.com

**Aimee Buchanan**

Aimme.buchanan@isio.com

This page is intentionally left blank



---

## **PENSION FUND BUDGET OUT-TURN TO 31 March 2022**

**Report by Director Finance & Corporate Governance**

---

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

**29 June 2022**

---

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

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with a final out-turn position of the Pension Fund for 2021/22.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets the standards a budget was approved on 4 March 2021 following the recommendations within the CIPFA accounting guidelines headings. This report is the final quarterly monitoring report of the approved budgets. Budgets for 2022/23 were also approved on 17 March 2022.
- 1.4 The total expenditure to 31 March 2021 is £6.395m against a budget of £7.160m. This resulted in a budget underspend of £765k. The main element of underspend is within Investment Management fees due to the lower than estimated market valuations which form the basis of the fee charges.
- 1.5 A key objective of the Fund is to pay pension benefits as they become due. Due to the maturing nature of the fund and this requirement the Fund has included within its investment strategy the requirement for income generating assets. The graph in para 5.3 shows the Fund has been able to fully meet its cashflow requirements.

#### **2 RECOMMENDATIONS**

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

- (a) Notes the actual expenditure to 31 March 2022 and;**
- (b) Notes the cashflow position.**

### 3 BACKGROUND

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

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

### 4 MONITORING TO 31 MARCH 2022

- 4.1 The table below shows the expenditure to 31 March 2022 against the approved budget and details the budget approved for 2022/23.

	Expenditure 31 March 22 £000's	2021/22 Budget £000's	2021/22 Variance £000's	2022/23 Budget £000's
Investment Management	5,668	6,420	(752)	6,564
Administration	378	381	(3)	407
Oversight & Governance	349	359	(10)	325
<b>Total</b>	<b>6,395</b>	<b>7,160</b>	<b>(765)</b>	<b>7,296</b>

- 4.2 Investment Management fees are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. The underspend of £752k is a result of the fluctuating nature of the markets during the year which resulted in valuations less than those estimated when setting the budget.

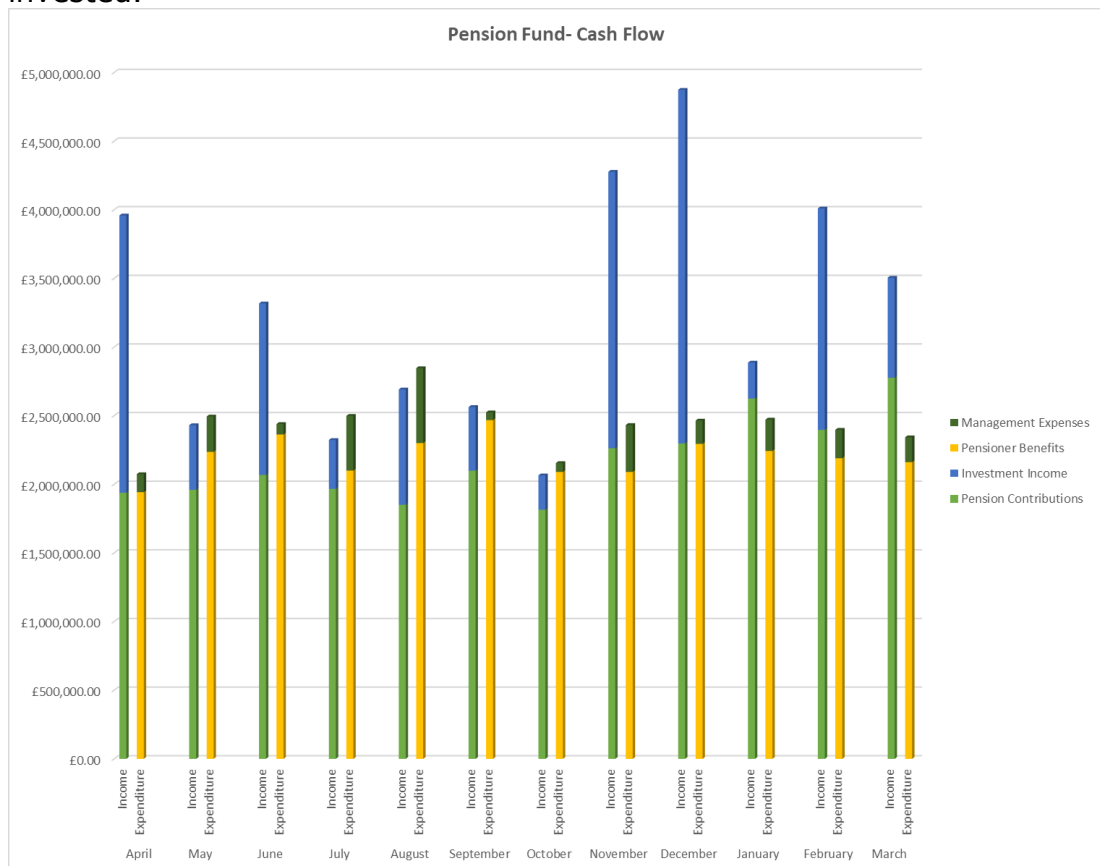
4.3 The underspend of £10k in oversight & governance reflects a reduction in fees with Northern Trust, the custodian, following the discontinuation of elements of their performance monitoring service.

## 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 shows some months with surplus income and others with deficits. However over the 12 month period shown the total cash received was £38.9m, cash expenditure was £29.1m, resulting in a cash surplus of £9.8m 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 17 March 2022

**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: [treasuryteam@scotborders.gov.uk](mailto:treasuryteam@scotborders.gov.uk)

This page is intentionally left blank

---

**DRAFT ANNUAL REPORT AND ACCOUNTS 2021/22**

**Report by Director Finance & Corporate Governance**

---

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

**29 June 2022**

---

**1 PURPOSE AND SUMMARY**

- 1.1 **This report provides the Joint Committee and Board with an opportunity to scrutinize and approve the Draft Annual Report and Accounts for the Pension Fund for 2021/22 prior to their submission to the External Auditors.**
- 1.2 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specify the elements which must be contained in the Annual Report and Accounts, the list of these are contained in para 4.1. The draft Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 This report is presented to enable members of both the Pension Fund Committee and the Pension Fund Board to consider the draft Annual Report and Accounts for 2021/22(the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2022.
- 1.4 The draft Report and Accounts are still subject to statutory Audit, which will commence August 2022. Following the statutory Audit process the final Report and Accounts will be submitted to the joint Committee and Board to review and of recommendation for approval.

**2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Pension Fund Committee ;**
  - a) **Notes the Draft Annual Report and Accounts 2021/22 and;**
  - b) **Approve their submission for review by the External Auditors, Audit Scotland**

### **3 BACKGROUND**

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

### **4 ANNUAL REPORT AND ACCOUNTS 2021/22**

- 4.1 The draft Annual Report and Accounts for 2021/22 (the Annual Report) is attached at **Appendix 1**. The Annual Report will also be sent to Audit and Scrutiny Committee on the 27 June 2022 for review prior to submission to the external auditors, Audit Scotland, by 30 June 2022.
- 4.2 The Annual Report will also be made available for public inspection for a 3-week period commencing 30 June 2022.
- 4.3 It should be noted that the Annual Report remains draft and the conclusion of the year end, including the statutory external audit, may result in changes to it.
- 4.4 The Committee will receive a copy of the final report at the end of the statutory external audit process prior to its submission to Council and publication.

### **5 IMPLICATIONS**

#### **5.1 Financial**

There are no financial implications relating to this proposal.

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

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

#### **5.3 Integrated Impact Assessment**

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

#### **5.4 Sustainable Development Goals**

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

#### **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 contents of this report.

**5.7 Data Protection Impact Statement**

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

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

No changes are required as a result of this report.

**6 CONSULTATION**

6.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), the Clerk to the Council and Corporate Communications 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 and Investment Manager, 01835 825249

**Background Papers:**

**Previous Minute Reference: Pension Fund Committee and Board 10 June 2021**

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

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

This page is intentionally left blank

# **SCOTTISH BORDERS COUNCIL PENSION FUND**

## **UNAUDITED ANNUAL REPORT AND ACCOUNTS**

**FOR THE YEAR TO 31 MARCH 2022**

## CONTENTS

	<b>Page</b>
<b>Section 1</b>	<b>Introduction</b>
	Chairman's Report 4
	Management Commentary 5
	Key Trends 12
<b>Section 2</b>	<b>Governance</b>
	Scheme Administration 14
	Scheme Governance 14
	Risk Management 16
	Training Policy & Practice Statements 17
	Annual Governance Statement 18
	Annual Governance Compliance Statement 23
<b>Section 3</b>	<b>Financial Statements</b>
	Statement of Responsibilities 29
	Fund Account 31
	Net Assets Statement 32
	Notes to the Accounts 33
<b>Section 4</b>	<b>Administration</b>
	Administration Strategy 63
	Administration Performance 63
	Fund Membership 66
	Communications Policy and Performance 67
<b>Section 5</b>	<b>Funding</b>



**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

	Funding Strategy Statement	<b>70</b>
	Actuarial Statement	<b>72</b>
<b>Section 6</b>	<b>Investment</b>	
	Statement of Investment Principles	<b>75</b>
	Investment Strategy	<b>76</b>
	Investment Performance	<b>80</b>
	Responsible Investment	<b>82</b>
<b>Section 7</b>	<b>Independent Auditor’s Report</b>	<b>84</b>
<b>Contacts</b>		<b>89</b>

# SECTION 1

## INTRODUCTION

## CHAIRMAN'S REPORT

### Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2022. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in financial year 2021/22.

### Highlights of the Year

#### Pension Fund Committee/Pension Board

The Fund has continued to strengthen its governance and stewardship of the Fund over the year. This work was recognized at the LAMP Investments Awards which saw the Fund winning the LGPS Fund of Year (assets under £2.5bn).

The Joint meetings of the Committee and Board continued as virtual meetings during 2021/22 ensuring all necessary governance and decision making continued. All Members fully engaged successfully with new ways of working online, including meeting their individual training requirements.

The Investment and Performance Sub-Committee, met all of the Fund's investment managers during the year, which allowed the committee full scrutiny and oversight of the assets under management.

#### Funding

The Fund's 2020 Triennial valuation resulted in a funding position of 110% and contributions rates maintained for the first 2 years, despite uncertainties arising from court cases, such as the McCloud judgement and the LGPS cost cap mechanism. The Fund continues to monitor this position and the effect of the changes required to resolve the judgements. The strong performance of the Fund's investments has resulted in this continued strong funding position.

#### Investment Assets

The volatile market conditions caused by the continuation of Covid-19 and the growing political conditions with Russia has resulted in very difficult market environments. Despite this the fund has

grown by £50m with an overall positive 5.9% performance.

### Statement of Responsible Investment

The Committee believes that a positive approach to Environmental, Social and Governance (ESG) issues can positively affect the investment performance of the Fund. The Fund fully reviewed and updated its policy, to include key priorities and improved monitoring. The Fund also continues to monitor and work with all its managers to ensure ESG is fully integrated into all their investment decisions.

The Fund undertook a full strategic asset review during 2021/22 with responsible investment being a key focus of the review. The review resulted in the transitioned its global equities with Baillie Gifford into their Global Alpha Paris Aligned fund and to change the passive equity allocation with UBS to ESG focused passive fund. These changes add further to the Funds move to increased responsible investment. The Fund also continued to support the Climate Action 100+ initiative, as a signatory, which is an initiative actively working to ensure the Paris Agreement on climate change targets are met.

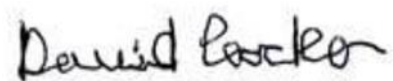
### Pensions Administration

Key targets have been met by the Pension Administration team with all payments processed on time and annual benefit statements issued within the required timescales. The implementation of the Member Self Service portal is a welcome addition for scheme members which enhances communication and access to real time quotes with no detrimental impact on administrative resources.

Covid-19 continued to bring challenges, which the service has met, with good progress made on the delivery of actions set out in the Pension Fund's business plan. Updates were made to the Communication Policy and Pensions Admin Strategy to reflect this and the implementation of the new portal and website.

### Acknowledgement

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



Chairman, Pension Fund Committee  
Scottish Borders Council

## **MANAGEMENT COMMENTARY SUMMARY**

### **OVERVIEW OF FUND BUSINESS**

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

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

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

### **STRATEGY AND OBJECTIVES**

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

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

### **KEY NUMBERS OF THE FUND**

- Total membership of 12,178 (11,664 in 2020/21)
- Total pension paid £25.4m (£25.1m 2020/21)
- Total contributions received £22.6m (£20.6m 2020/21)
- Total investments held £909.4m (£859.7m 2020/21)
- Investment performance of 5.9% for 2021/22 (20.1% 2020/21)

### **GOVERNANCE**

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

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

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

The Fund, annually, agrees a three year business plan which sets out the action plan to deliver the key work areas identified to ensure objectives continue to be met and any new legislative requirements are built into work plans. The actions are monitored and reported to the Joint Pension Fund Committee and Pension Fund Board. The key actions completed in 2021/22 were:-

- Full review and update of the Funding Strategy Statement with inclusion of new cessation policy and correct employer contribution rates received.
- Completion of the agreed training programme for all members of the Pension Fund Committee and Pension Fund Board.
- Full review of Strategic Asset Allocation completed and implementation commenced.
- Completion of a procurement exercise for ESG passive equity manager and Infrastructure manager per the approved strategic asset allocation.
- Implementation and roll out of Members Self Service
- Review completed of Responsible investment policy further enhancing the Funds commitment to responsible investing.
- Review completed of services provided by IT providers to ensure data is secure and adheres to cyber security requirements

Due to limited access to office due to Covid-19 the review of Employer covenants has been re-scheduled to be completed by December 2022. The finalisation of the GMP reconciliation has also been delayed due to the Pensions Administration team processing the recalculation of Pensions and Lump Sums following the late settlement of the SJC Pay Award for Scottish Borders Council employees, which was backdated to January 2021. There have been no further legislative changes announced in relation to the remedy for McCloud, the Fund awaits confirmation of the requirements before developing an action plan to avoid repeated requests for information from the Employers.

The Fund has agreed the following key areas of development and improvement within its 2022/23 Business Plan.

- Review of all forms of communication material.
- Accuracy of Pension records including requirements for pension dashboard
- System improvement to support home working
- Submission of application for the Stewardship Code.
- Commence preparation for 2023 triennial valuation
- Review of the Funds strategic asset allocation following the 31 March 2020 valuation.
- Implementation of approved Responsible Investment policy and its monitoring requirements.
- Review and implementation of The Pension Regulators “Single Code”.

## **RISKS AND UNCERTAINTIES**

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

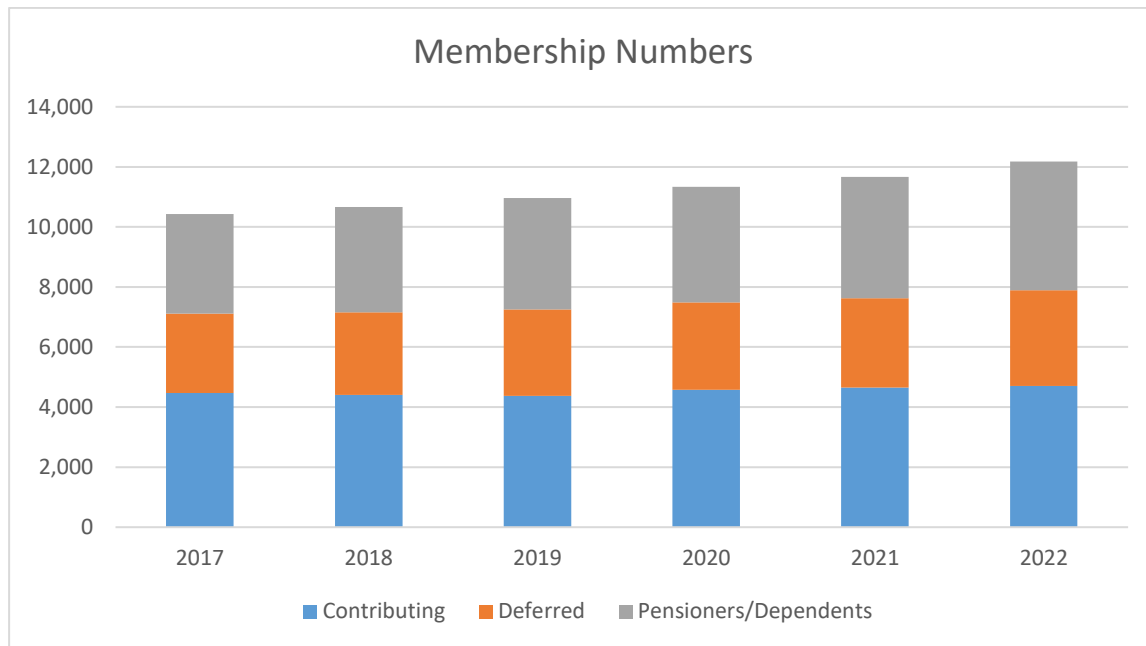
A full risk register is maintained by the Fund in line with CIPFA guidance and the Council's approach to risk management. Each risk identified is assessed for likelihood and impact with no controls in place and after controls are applied. Further controls are identified and progress monitored and reported to the Joint Pension Fund Committee and Pension Fund Board on a quarterly basis as part of Risk update reports. The Fund currently has 51 identified risks spread over Assets & investments, Employer, Resource & skill, Liability, Administrative, Regulatory & Compliance and Reputation. There is one risk remaining as a red assessment at 31 March 2022 which is "Legislation and other regulatory framework changes impacting on the Fund". The Fund is managing and monitoring this risk by ensuring it actively participates in all consultations and keeps abreast of all legislative and regulatory changes. Further information on risk management and risks can be found on page 16.

## **ADMINISTRATION AND MEMBERSHIP**

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

The Fund has paid pensions benefits of £25.4m during the year (£25.1m in 2020/21) and received contributions of £22.6m (£20.6m in 2020/21). The Fund has continued to mature with net withdrawals for dealing with members, however due to the levels of transfers in the net withdrawals from the fund decreased to £0.3m during 2021/22 compared to £6.6m in 2020/21, the increase in the new withdrawals has been funded by increased income from investment returns. Throughout the Covid-19 crisis, pensions have been paid on time and contributions have been collected in accordance with scheme regulations in all instances. The ability for staff to work from home has allowed the administration function to continue to perform as normal through the adoption of alternative working practices. Further information on the performance of Pension Administration and it's the Pension Administration Strategy can be found in section 4.

The maturing nature of the Fund is reflected in the membership numbers which are shown in the table over. Overall members at 31 March 2022 increased during the year to 12,178 but active contribution members now only represent 39% of the membership compared to 43% at 31 March 2017. The continued decrease in active members has resulted in the Fund looking to investments to provide income to ensure cash is available to pay the pensions as they are due.



**COMMUNICATION**

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

Due to Covid-19 the annual employer meeting was once again held virtually with additional information being shared virtually. Information was posted on the website for both members and employers including information on the Shared Costs AVC, pension increases, guidance on how to sign up to online access for payslips and all publications such as the Annual Report. The deployment of the Member Self Service functionality in August 2021 added an additional dimension to the communication methods and allowed us to move towards a more digital approach in line with best practice and expectation of the scheme members. A new version of the website was deployed during the year and following a drop of in visits over November and December there was a significant increase in the number of hits recorded on the website from January to March 2022.

**FUNDING**

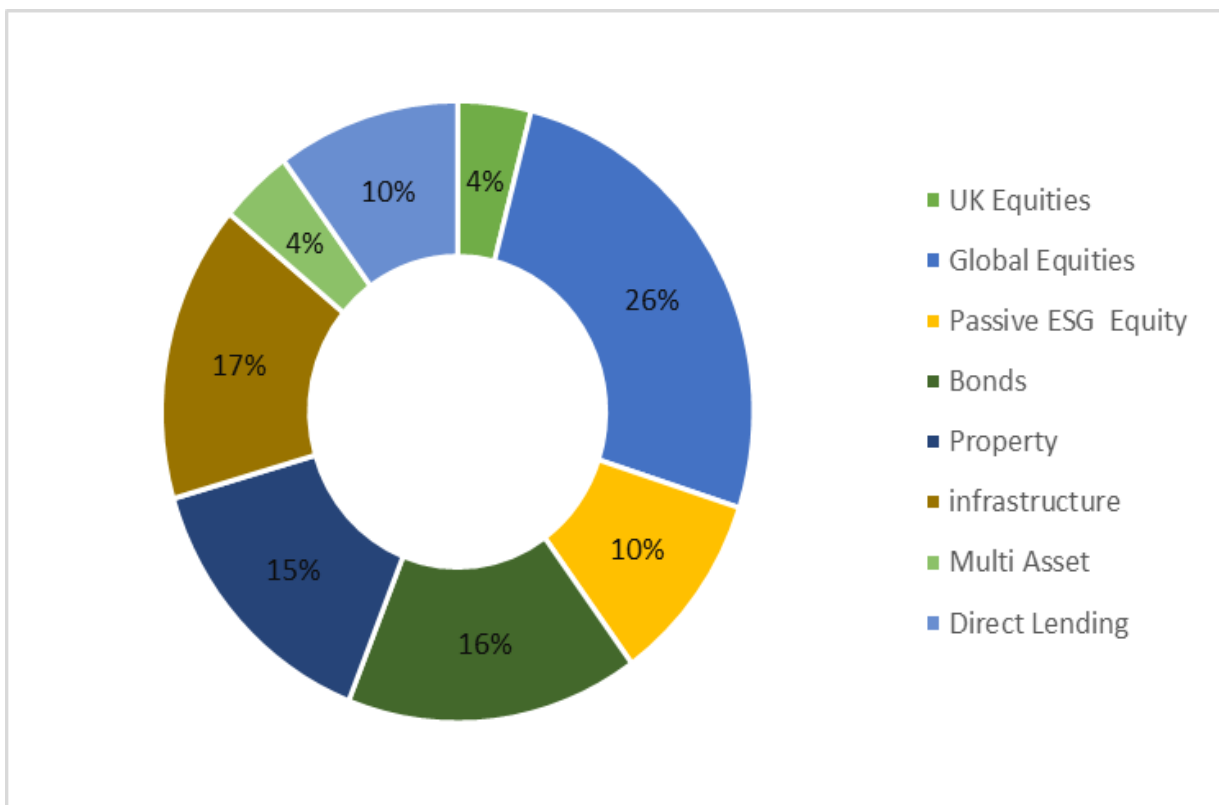
The three yearly Actuarial Valuation for 31 March 2020 was completed in March 2021 which resulted in a funding position of 110% (114% at 31 March 2017) for the Fund. The next formal valuation of the Fund will be as at 31 March 2023. Interim monitoring has undertaken between the 2020 valuation during the year. Monitoring of the funding position is undertaken on a quarterly basis and reported to the Pension Fund Committee.

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

The Funding Strategy Statement approved on 4 March 2021 sets out the approach to funding. Further detail can be found in section 5 of the report and the full version of the Funding Strategy Statement is available via the Scottish Borders Council Pension Fund website.

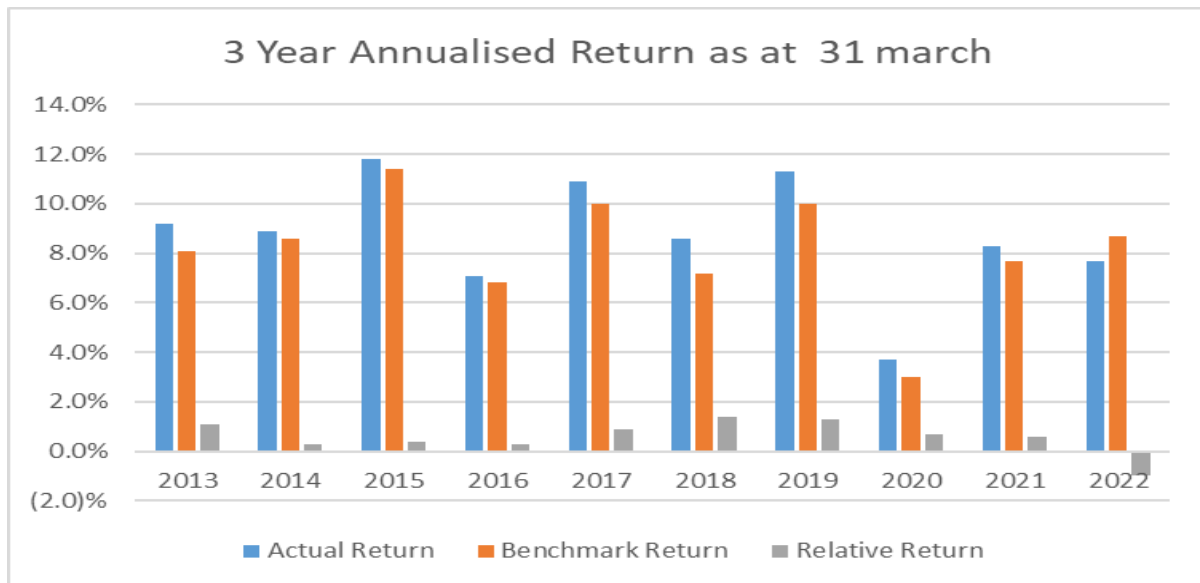
### INVESTMENT RETURNS

The Fund's investment objective is to support the Funding Strategy by adopting an investment strategy and structure, which incorporates an appropriate balance between risk and return. Following the 2020 Triennial Valuation of the Fund approved the asset allocation shown below, which spread investments over a number of key asset markets, thus further spreading the risk and increasing the diversification of the Fund. Good progress has been made during the year in the implementation of the revised strategy.



The Fund's investment returns delivered a positive return of 5.9% during 2021/22 (20.1% 2020/21) against a benchmark of 10.6% (18.3% 2020/21) for the year to 31 March 2022. Overall the Fund's assets increased by £50m from 31 March 2021. The 2021/22 performance although under its benchmark was a positive return in volatile and difficult market conditions. The table over details the 3 year annualised return once which is also slightly under benchmark for 2021/22.





Investment markets in during April 2021 and December 2021 saw equities market delivering strong returns due to sustained economic recovery from Covid-19, supported by fiscal and monetary measures taken by governments and central banks. However, some of these gains were lost during January to March 2022 following Russia’s invasion of Ukraine.

Global credit markets experienced a difficult 12 months. UK investment grade credit performance was negative due to rising interest rate expectations and in light of heightened inflationary pressures.

Work to fully implement the strategy has continued, with equity exposure decreasing and the funds being investing in longer term illiquid assets such as infrastructure and infrastructure debt. The Fund has increased its infrastructure and infrastructure debt investment over the year by £17m.

The Strategy has also resulted in increased levels of investment income which has allowed the Fund to meet the increasing net withdrawal for dealing with payments to members.

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES**

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

The Fund has, in line with its Statement of Responsible Investment Policy, completed its third annual monitoring report on all the Fund’s managers. 16 out of the 17 managers are signatories of UNPRI with the one remaining manager only representing 0.3% of the Fund’s assets. The Fund has during the year declined investment opportunities offered by managers not signatories of UNPRI.

The Fund has also during 2021/22 undertaken a full review of its Responsible Investment Policy and on 17<sup>th</sup> March 2022 approved 6 key responsible investment objectives. These are

- SDG 13 – Climate Change
- SDG 7 – Affordable & Clean Energy
- SDG 1 – No Poverty

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

- SDG 2 – Zero Hunger
- SDG 3 – Good Health & Well-being
- SDG 10 – Reduce Inequalities

Work has commenced in the assessment and collection of data to allow reporting and monitoring of SDG13 Climate change and SDG 7 Affordable & clean energy. Due to the lack of robust measurement criteria or data the remaining objectives will be reviewed regularly as data collection is developed.

The Fund also as part of its Strategic Asset Allocation review invested £94m into a Global ESG passive fund with LGIM and transitioned £114m of global equities with Baillie Gifford into the Baillie Gifford Baillie Gifford Global Alpha Paris Aligned. Both investments further enhance the Funds commitment to responsible investment.

The Fund continues to look for further opportunities to enhance its commitment to sustainability and climate change which will form key criterion in future investment and procurement decision making.

### **CLIMATE ACTION 100+**

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

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

Further information on the Funds' investments can be found in section 6 of this report.

### **ACKNOWLEDGMENT**

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

## KEY TRENDS

Membership	2017/18	2018/19	2019/20	2020/21	2021/22
Active Members	4,409	4,376	4,573	4,647	4,703
Deferred Members	2,751	2,878	2,909	2,977	3,194
Pensioners	3,507	3,707	3,856	4,040	4,281
Total Members	10,667	10,961	11,338	11,664	12,178

Investments	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Opening Net Value	653,207	685,681	731,048	712,319	859,794
Movement in year	32,475	45,367	(18,728)	147,475	49,587
Closing Net Value	685,681	731,048	712,319	859,794	909,381
Investment Income	8,195	13,314	13,938	12,749	17,600
Investment Fees	8,192	5,848	5,296	5,310	5,668

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Administrative costs	(292)	(391)	(363)	(352)	(378)
Oversight & Governance costs	(233)	(289)	(263)	(318)	(349)
Pensions Income	19,610	20,647	21,200	21,727	25,939
Pensions Expenditure	(22,189)	(24,257)	(26,555)	(28,296)	(26,071)
Net Pensions Cash flow	(2,579)	(3,610)	(5,355)	(6,569)	(132)

# **SECTION 2**

# **GOVERNANCE**

## SCHEME ADMINISTRATION

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

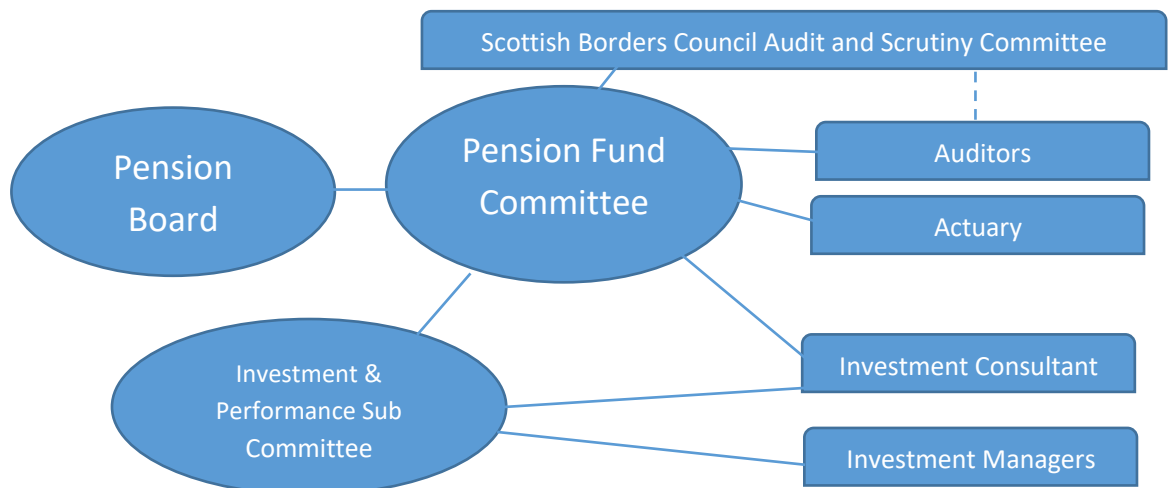
The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. The Fund adheres to Scottish Borders Council policies for managing conflicts of interests, codes of conducts and register of interests.

David Robertson, Director - Finance & Corporate Governance, as the Council's Section 95 Officer, is responsible for the financial administration of the Fund.

## SCHEME GOVERNANCE

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

Scottish Borders Council Pension Fund Governance:-



**Pension Fund Committee** – is the main decision making body for the Fund and is comprised of seven Scottish Borders Council Councillors, the Convener, One member of the Executive, three members of the Administration and two members of the opposition.

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

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

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

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

**Investment Managers** – manage the investment portfolios.

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

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

### **PENSION FUND COMMITTEE**

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



Councillor David Parker - Chair



Councillor Simon Mountford – Vice Chair



Councillor Pam Brown  
from 26/5/2022



Councillor Watson McAteer  
from 26/5/2022



Councillor Carol Hamilton



Councillor Donald Moffat



Councillor Sandy Scott

Councillor Jim Brown to 4/5/2022

Councillor Gordon Edgar to 4/5/2022

### **PENSION FUND BOARD**

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

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

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

As at 31 March 2022 the Scottish Borders Council Pension Board membership comprised the following:-

Employer Representatives:

- Councillor Sandy Aitchison – Scottish Borders Council to 4/5/2022
- Hazel Robertson – Borders College
- Linda Ross – LIVE Borders to 5/4/2022
- Anthony Daye – South of Scotland Enterprise

Employee Representatives:

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

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

### **INVESTMENT & PERFORMANCE SUB-COMMITTEE**

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

### **RISK MANAGEMENT**

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

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

A full risk review was undertaken in June 2021. All identified actions are monitored and reported on a quarterly cycle, with the addition of any new risks that have materialised during the intervening period from the full risk review.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

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

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	5	7	-	-	9	3
Employer	1	6	-	-	2	5
Resource & Skill	-	5	-	-	1	4
Liability	2	5	-	-	2	5
Administrative	-	8	-	-	1	7
Regulatory & Compliance	4	2	-	1	3	2
Reputation	2	4	-	-	2	4
<b>Total Number of Risks</b>	<b>14</b>	<b>37</b>	<b>0</b>	<b>1</b>	<b>20</b>	<b>30</b>

**RED -Very High (15-25)**

**AMBER – High (6-12)**

**GREEN – Low (1-5)**

The one risk remaining as a red assessment, as at 31 March 2022, is “Legislation and other regulatory framework changes impacting on the Fund”. The Fund is managing and monitoring this risk by ensuring it actively participates in all consultations and keeps abreast of all legislative and regulatory changes.

### TRAINING POLICY & PRACTICE STATEMENT

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

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

The Training Policy applies to members of the Pension Fund Committee and the Pension Board. It requires all members to complete the Pension Regulator Toolkit within six months of joining the Board and to attend at least two training events a year. The Policy also requires an annual training plan to be agreed. The 2021/22 plan was approved on 10 June 2021 and was based on assessment returns completed by all members. The table over shows all members attended two or more events. The toolkit has been completed by all members of the Committee and seven members of the Board.



### Training attendance

No of events	Committee Members		Board Members	
	%	Number	%	Number
6	42.8%	3	-	-
5	-	-	12.5%	1
4	14.3%	1	25.0%	2
3	14.3%	1	50.0%	4
2	28.6%	2	12.5%	1

The training covered the following areas:

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

All members are also required to attend, as a minimum, two meetings of the joint Pension Fund Committee and Pension Board a year. The table below shows Six Members of the Pension Fund Committee and seven members of the Pension Fund Board have met the attendance requirement for 2021/22

No of meetings	Committee Members		Board Members	
	%	Number	%	Number
5 meetings	57%	4	-	-
4 meetings	29%	2	63%	5
3 meetings	-	-	25%	2
2 meetings	-	-	-	-
Less than 2	14%	1	12%	1

## ANNUAL GOVERNANCE STATEMENT

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

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

## **Governance Framework**

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

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

- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Scrutiny Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

### **Review of Framework**

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

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles, details of which are set out in the Governance Compliance Statement 2021-22 (page 23 -27 ).

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

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

### **Internal Audit Opinion**

The Chief Officer Audit & Risk's opinion is that the systems of internal control operating within the Scottish Borders Council Pension Fund during 2021/22 are sound, and governance and risk management arrangements are effective

During 2021/22 the Internal Audit work included:

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

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

There was no specific testing of Pensioner Payroll payments within Internal Audit work on Business World ERP System Key Controls which focused on new areas of system functionality. Reliance can be placed on the previous year's Internal Audit work which concluded comprehensive assurance on key controls and processes to ensure that payroll transactions are valid, complete and accurate. Internal Audit reviewed reports associated with Pensions resulting from the National Fraud Initiative (NFI) Data Matching exercise for 2020/2021. This highlighted one discrepancy, which is currently under investigation to ascertain whether this is the result of error or fraud.

Best practice suggested that having a Business Plan for the Pension Fund was a good way of demonstrating compliance with the "Myners Principle" relating to effective decision making. The Business Plan 2021/22 to 2023/24 for the Pension Fund was approved by the Joint Pension Fund Committee and Pension Fund Board on 10 June 2021. It identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund. The HR Shared Services Manager gave a demonstration of the Self Service Pension System under development at the joint Committee and Board meeting on 16 September 2021. This system would save considerable time for the Pension Administration team, and provide pension scheme members with a valuable tool. A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Joint Pension Fund Committee and Pension Fund Board meeting on 14 December 2021. Quarter Performance Updates are presented in private by the Investment Advisor at the joint Committee and Board meetings. Pension Administration Performance is reported annually to the joint Committee and Board for its inclusion in the Fund's Annual Report and Accounts.

External access to Business World ERP system for pension members to view payslips and P60s is in place. Work continues to promote this facility.

The 2021/22 annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) demonstrates sufficient evidence that the Council's Internal Audit section conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards.

### **Improvement Areas of Governance**

The Committee agrees a three year business plan on an annual basis to ensure the ongoing management and development of the Fund is in line with the longer term policy, objectives and strategy of the Fund. The plan sets out the key actions and sets timescales of each. The progress of the actions are reported mid-year to the Committee. The actions completed from the 2021/22 business plan are as follows;

- Full review and update of the Funding Strategy Statement with inclusion of new cessation policy and correct employer contribution rates received..
- Completion of the agreed training programme for all members of the Pension Fund Committee and Pension Fund Board.
- Full review of Strategic Asset Allocation completed and implementation commenced.
- Completion of a procurement exercise for ESG passive equity manager and Infrastructure manager per the approved strategic asset allocation.
- Implementation and roll out of Members Self Service
- Review completed of Responsible investment policy further enhancing the Funds commitment to responsible investing.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

- Review completed of services provided by IT providers to ensure data is secure and adheres to cyber security requirements

The following areas have been identified and included in the 2022/23 action plan submitted to the Joint Pension Fund Committee and Board for approval. These will enhance the existing governance arrangements:

- Review of all forms of communication material.
- Accuracy of Pension records including requirements for pension dashboard
- System improvement to support home working
- Submission of application for the Stewardship Code.
- Commence preparation for 2023 triennial valuation
- Review of the Funds strategic asset allocation following the 31 March 2020 valuation.
- Implementation of approved Responsible Investment policy and its monitoring requirements.
- Review and implementation of The Pension Regulators "Single Code".

### **Impact of COVID-19**

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

During 2021/22 all meetings were held virtually. The overall governance of the Fund remained in place with all meetings being held and papers and decisions being made available via the internet. All services have been fully maintained and all payments made in a timely manner. Investments which initially fell at the start of the pandemic bounced back quickly and additional monitoring meetings with Officers and fund managers were held to ensure risks were identified and mitigations measures are in place. A full review will be undertaken and future business continuity plans updated to reflect findings.

### **Certification**

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control, governance and risk management. The annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Policy and Compliance Statement (pages 23- 27).

## ANNUAL GOVERNANCE COMPLIANCE STATEMENT

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

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

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

Principle		Full Compliance	Comments
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to the Pension Fund Committee for approval.  Two members from the Pension Board and all Members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
<b>Committee Membership and Representation</b>			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members) (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Pension Board and Pension Fund Committee meet jointly ensuring employer and member (trade union) representation at meetings.  The Investment Sub-Committee has two non-voting members from the Pension Board.  The Independent Investment Consultant, Finance and HR Officers also attend in an advisory capacity.
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training They are given full opportunity to contribute to	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June).  The Board was established by Council on 2 April 2015. The Scheme of Administration for the Pension Fund Committee, and the Pension Board Constitution, provide for joint meetings, with equal rights to receive

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

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



**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

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

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

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

# **SECTION 3**

# **FINANCIAL STATEMENTS**

## **STATEMENT OF RESPONSIBILITIES**

### **COUNCIL'S RESPONSIBILITIES**

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

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

## **DIRECTOR - FINANCE & CORPORATE GOVERNANCE RESPONSIBILITIES**

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

In preparing the Annual Accounts, the Director - Finance & Corporate Governance has:

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

The Director - Finance & Corporate Governance has also:

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

I certify that the financial statements give a true and fair view of the financial position of Scottish Borders Council Pension Fund as at 31 March 2022 and the transactions of the Fund for the year then ended.

David Robertson  
Director - Finance & Corporate Governance  
Scottish Borders Council

Date

## FUND ACCOUNT for year ending 31 March 2022

2020/21 £'000		2021/221 £'000	Notes
	<b>Dealings with members, employers and others directly involved in the scheme:</b>		
20,666	Contributions	22,593	7
1,061	Transfers in from other pension funds	3,346	8
21,727		25,939	
(25,157)	Benefits	(25,390)	9
(3,139)	Payments To And On Account Of Leavers	(681)	10
<b>(28,296)</b>		<b>(26,071)</b>	
<b>(6,569)</b>	<b>Net Additions/(Withdrawals) from Dealings with Members</b>	<b>(132)</b>	
<b>(5,979)</b>	<b>Management expenses</b>	<b>(6,395)</b>	11
	<b>Return on Investments:</b>		
12,749	Investment Income	17,600	12
146,680	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	40,765	14
(45)	Taxes on Income	(387)	
<b>159,384</b>	<b>Net Return on Investments</b>	<b>57,978</b>	
<b>146,836</b>	<b>Net Increase/(Decrease) in the Fund during the Year</b>	<b>51,451</b>	
<b>712,858</b>	Opening Net Assets of the Scheme	<b>859,694</b>	
<b>859,694</b>	<b>Closing Net Assets of the Scheme</b>	<b>911,145</b>	

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

## NET ASSETS STATEMENT as at 31 March 2022

2019/20 £'000		2020/21 £'000	Notes
860,013	Investment Assets	910,784	14
(219)	Investment Liabilities	(1,403)	14
<b>859,794</b>	<b>Total net investment</b>	<b>909,381</b>	
	<b>Current Assets &amp; Liabilities</b>		
2,614	Current Assets	4,174	21
(2,714)	Current Liabilities	(2,410)	22
<b>(100)</b>		<b>1,764</b>	
<b>859,694</b>	<b>Net Assets of the Fund available to fund benefits at the period end</b>	<b>911,145</b>	

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

David Robertson CPFA  
Director - Finance & Corporate Governance

Date

## **NOTES TO THE ACCOUNTS**

### **1 DESCRIPTION OF THE FUND**

#### **A) General**

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

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

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

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

Organisations participating in the Fund include:

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

#### **B) Funding**

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

The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions. For 2020/21 this was based on the valuation undertaken as at the 31 March 2020, as amended by specific changes, agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2021/22 ranged from 18% to 21.1%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2022. From 1 April 2015 these contributions are based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.



**C) Benefits**

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

The table below gives a summary of the scheme benefits:

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

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

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

## **2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements summarise the Fund's transactions for the 2021/22 financial year and its position as at the 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the *Local Government Pension Scheme Fund Accounts 2020/21 - example accounts and disclosure checklist* published by the Chartered Institute of Public Finance Accountants (CIPFA).

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

The accounts have been prepared on a going concern basis.

## **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Fund Account**

#### **Accruals Basis**

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

#### **Contributions Income**

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

#### **Transfers to and from other schemes**

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

#### **Investment Income**

##### **i) Interest income**

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

**ii) Dividend income**

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

**iii) Distributions from pooled funds**

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

**iv) Movement in the net market value of investments**

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

**Benefits Payable**

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

**Taxation**

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

**Administration Expenses**

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

**Investment Management Expenses**

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

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

**Net Assets Statement**

**Valuation of Investments**

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

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

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

The processes of the fund managers, who are listed in Note 14b, (page 43) are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

### **Foreign Currency Transactions**

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

### **Derivatives**

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

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

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

### **Cash and Cash Equivalents**

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

### **Actuarial Present Value of Promised Retirement Benefits**

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

**Additional Voluntary Contributions (AVCs)**

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

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

**Accounting Standards that were issued but not yet adopted.**

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

**4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

**Pension Fund Liability**

The Pension Fund liability is calculated every three years by the appointed Actuary (currently Hymans Robertson), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised on page 56. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the financial statements at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 20, page 57).	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson is	The effects on the net pension liability of changes in individual assumptions can be measured.  - A 0.1% decrease in the discount rate assumption would result in a increase in the pension liability of £20m

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

	<p>engaged to provide the Fund with expert advice about the assumptions to be applied.</p>	<ul style="list-style-type: none"> <li>- A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £18m</li> <li>- A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £2m, and</li> <li>- A 1 year increase in assumed life expectancy would increase the liability by £42m</li> </ul> <p><i>Source – IAS26 report 2022</i></p>
<p>Portfolio of Level 3 assets held</p>	<p>Level 3 assets are those which do not have observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. Such valuations are prepared in accordance with the valuation principles of IFRS and GAAP. There is, however a degree of estimation involved in the valuations.</p>	<p>The total assets held in Level 3 £323.9m and include Private Credit, Property, Infrastructure and Alternatives. There is a risk that this investment may be under or overstated in the accounts. Based on historical data and current market trends actual valuation could be between £356.3m and £291.1m</p>

**6 EVENTS AFTER THE REPORTING DATE**

There are no known events since 31 March 2022 which directly affect these accounts.

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

**7 CONTRIBUTIONS RECEIVABLE**

2020/21				2021/22		
Employers	Members	Total		Employers	Members	Total
£'000	£'000	£'000		£'000	£'000	£'000
15,472	5,135	20,607	Normal	17,030	5,506	22,536
28	-	28	Special/Pension Fund Strain	42	-	42
-	31	31	Additional Voluntary	-	15	15
<b>15,500</b>	<b>5,166</b>	<b>20,666</b>	<b>Total</b>	<b>17,072</b>	<b>5,521</b>	<b>22,593</b>

2020/21		2021/22
£'000		£'000
17,739	Administering Authority	18,597
917	Scheduled Bodies	989
2,010	Admitted Bodies	3007
<b>20,066</b>		<b>22,593</b>

**8 TRANSFERS IN**

There were no group transfers in to the scheme during 2021/22 or 2020/21 and the total of £3,346m (2020/21: £1.061m) represents the total of transfer values in respect of individual members joining the scheme.

**9 BENEFITS PAYABLE**

2020/21		2021/22
£'000		£'000
19,754	Pension Payments	20,410
4,727	Commutation and lump sum retirement benefits	4,254
676	Lump Sums death benefits	726
<b>25,157</b>		<b>25,390</b>

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

2020/21		2020/21
£'000		£'000
22,918	Administering Authority	22,361
438	Scheduled Bodies	845
1,801	Admitted Bodies	2,184
<b>25,157</b>		<b>25,390</b>

**10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

2020/21		2021/22
£'000		£'000
49	Refunds to members leaving service	82
1,286	Individual Transfers	599
1,804	Group Transfers	-
<b>3,139</b>		<b>681</b>

**11 MANAGEMENT EXPENSES**

2020/21		2021/22
£'000		£'000
352	Administrative costs	378
5,310	Investment management expenses	5,668
317	Oversight and governance costs	349
<b>5,979</b>	<b>Total</b>	<b>6,395</b>



Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022

**11(a) Investment Management Expenses**

	Total	Management fees	Transaction cost
2021/22	£'000	£'000	£'000
Equities	1,035	772	263
Pooled Investments	2,290	1,648	642
Private Equity/Infrastructure	1,400	1,274	126
Property	880	442	438
<b>Total</b>	<b>5,605</b>	<b>4,136</b>	<b>1,469</b>
Custody fees	63		
<b>Total</b>	<b>5,668</b>		
	Total	Management fees	Transaction cost
2020/21	£'000	£'000	£'000
Equities	1,027	738	289
Pooled Investments	2,917	2,415	502
Private Equity/Infrastructure	722	620	102
Property	560	232	328
<b>Total</b>	<b>5,226</b>	<b>4,005</b>	<b>1,221</b>
Custody fees	84		
<b>Total</b>	<b>5,310</b>		

**12 INVESTMENT INCOME**

2020/21		2021/22
£'000		£'000
2,571	Dividends from equities	2,931
6,521	Income from Pooled Investment vehicles	8,523
3,657	Income from Pooled Property Investment vehicles	6,146
0	Interest on Cash Deposits	0
<b>12,749</b>		<b>17,600</b>

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

**13 OTHER FUND ACCOUNT DISCLOSURES**

**13(a) External Audit Costs**

In 2021/22 the agreed audit fee for the year was £22,110 (2020/21 £21,510). The external auditor is Audit Scotland.

**14 INVESTMENTS**

Market Value at 31 March 2021 £'000		Market Value at 31 March 2022 £'000
	<b>Investment Assets</b>	
<b>217,762</b>	Equities	<b>140,492</b>
<b>172,971</b>	Pooled Equities	<b>212,653</b>
<b>179,002</b>	Pooled Bonds	<b>184,351</b>
<b>110,739</b>	Pooled Other	<b>116,036</b>
<b>95,298</b>	Pooled Property Investments	<b>139,927</b>
<b>69,690</b>	Private Equity/Infrastructure	<b>86,838</b>
-	Diversified Alternatives	-
-	Derivative Contracts	-
<b>13,132</b>	Cash Deposits	<b>28,737</b>
<b>994</b>	Investment Income Due	<b>858</b>
<b>425</b>	Amounts receivable for sales	<b>892</b>
<b>860,013</b>	<b>Total Investment Assets</b>	<b>910,784</b>
	<b>Investment Liabilities</b>	
<b>(219)</b>	Amounts payable for purchases	<b>(1,403)</b>
<b>859,794</b>	<b>Net Investment Assets</b>	<b>909,381</b>

**14(a) Reconciliation of Movement in Investment and Derivatives**

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

	Opening Market Value 1/4/2021 £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value 31/3/2022 £'000
Equities	<b>217,762</b>	48,057	(116,948)	(8,379)	<b>140,492</b>
Pooled Investments	<b>462,713</b>	104,403	(84,906)	30,830	<b>513,040</b>
Pooled Property Investments	<b>95,298</b>	53,906	(23,065)	13,788	<b>139,927</b>
Private Equity/Infrastructure	<b>69,691</b>	17,715	(5,417)	4,849	<b>86,838</b>

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

Derivative Contracts	-		(1)	1	0
	<b>845,464</b>	224,081	(230,337)	41,089	<b>880,297</b>
<b>Other Investment Balances</b>					
Cash Deposits	<b>13,132</b>			(337)	<b>28,737</b>
Amount receivable for sales	<b>424</b>				<b>892</b>
Investment Income due	<b>993</b>				<b>858</b>
Spot FX Contract	<b>1</b>			10	-
Amount Payable on Purchase	<b>(220)</b>				<b>(1,403)</b>
<b>Net Investments</b>	<b>859,794</b>				<b>909,381</b>

**Significant Transactions during the year:**

The Fund approved a revised Investment Strategy approved in June 2021. The review maintained the allocation for equities but approved the movement of the passive equities into a ESG focused passive fund and the movement of Baillie Gifford Global equities into their Paris Aligned global equity fund. The review also introduced an allocation to Housing, increased the allocation to Long Lease property and increased the allocation to infrastructure. The Fund has made good progress on the implementation of these changes with the full funding of the new ESG passive equity fund with LGIM and has fully implemented the increased allocation to Long Lease property with Blackrock.

**14(b) Investment Analysed by Fund Managers**

Investment Management was undertaken on behalf of the Fund during the financial year by 20 firms of investment managers, these are shown below. The Fund has also during 2021/22, continued to make investments into infrastructure via collaborative working with Lothian Pension Fund and directly with Macquarie. As at 31 March 2022 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-21		31-Mar-22			
£'000	%			£'000	%
51,592	6.0	UBS	Pooled Fund -UK Equities	0	-
61,178	7.1	Baillie Gifford	UK Equities	29,134	3.2
164,059	19.1	Baillie Gifford	Global Equities	114,705	12.6
118,407	13.8	Morgan Stanley	Pooled Fund - Global Equities	118,980	13.0
-	-	LGIM	Pooled Fund – Passive Global Equities	93,673	10.3

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

116,311	13.5	M&G	Pooled Fund - Diversified Income	117,271	12.9
62,691	7.3	M&G	Pooled Fund - Bonds	67,080	7.3
37,221	4.3	UBS	Pooled Fund -Property	26,563	2.9
58,181	6.7	Blackrock	Pooled Fund – Property	121,500	13.3
59,823	7.0	LGT	Pooled Fund - Alternatives	67,882	7.4
27,424	3.2	Partners Group	Pooled Fund – Private Credit	31,517	3.5
24,728	2.9	Permira	Pooled Fund – Private Credit	15,578	1.7
3,100	0.4	Alinda	Infrastructure	3,443	0.4
3,449	0.4	KKR	Infrastructure	2,940	0.3
1,226	0.1	Infrared	Infrastructure	1,107	0.1
13,595	1.6	Dalmore	Infrastructure	14,263	1.6
1,421	0.2	Brookfield	Infrastructure	3,602	0.4
1,636	0.2	Macquarie	Infrastructure	3,249	0.4
1,701	0.2	Equitix	Infrastructure	2,013	0.2
2,162	0.3	Gaia	Infrastructure	3,097	0.3
2,342	0.3	Oaktree	Infrastructure	66	0.0
-	-	Gresham House	Infrastructure	7	0.0
39,059	4.5	Macquarie	Pooled Fund -Infrastructure Debt	53,053	5.8
8,488	0.9	Internal	Internally Managed Cash & Investments	21,625	2.4
<b>859,794</b>				<b>912,348</b>	

The benchmarks and performance targets for each manager as at the 31 March 2022 are contained in the Statement of Investment Principles published on the Pension Fund website.

**Investments representing more than 5% of Net Assets**

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2022. Each of the investments comprises units in a managed fund.

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

	As at 31 March 2021		As at 31 March 2022	
	£'000	% of Fund	£'000	% of Fund
Blackrock – Long Lease Property	58,181	6.8	121,500	13.3
Morgan Stanley Global Brands Fund	118,407	13.8	118,980	13.0
M&G Alpha Opportunities Fund	116,311	13.5	117,271	12.9
LGIM – Future World Global Equity Index			93,673	10.3
LGT Crown SBC Segregated Portfolio	59,823	7.0	67,882	7.4
M&G Index Linked	62,691	7.3	67,080	7.3

### Fund Performance

The total Fund return for the year was 5.9% with a relative return under benchmark of 4.7%. Over three years the Fund has generated an annualised return of 7.7% per annum, with a relative return under benchmark of 1.0% per annum. Further information on this is contained in Section 6 -- Investments.

### 14 (c) Stock Lending

The Fund may participate in the stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2022 stock with a market value of £9.1m was on loan.

### 14(d) Property Holdings

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

## 15 ANALYSIS OF DERIVATIVES

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

Settlements	Currency Bought	Local Value £000's	Currency Sold	Local Value £000's	Asset Value £000's	Liability Value £000's
Under 1 month	GBP	0	0	0	0	0
Open forward currency contracts at 31 March 2022					0	0
Net forward currency contracts at 31 March 2022					0	0
Open forward currency contracts at 31 March 2021					0	0
Net forward currency contracts at 31 March 2021					0	0

## 16 FAIR VALUE BASIS OF VALUATION

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

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

### 16(a) Fair Value Hierarchy

Values as at 31 March 2022	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£000's	£000's	£000's
<b>Financial assets at fair value through profit &amp; loss</b>				
Equities	139,802	-	690	140,492
Pooled Investments	303,330	94,835	68,071	466,236
Pooled Property Investments	-	18,610	121,317	139,927
Private Equity/Infrastructure	-	-	133,642	133,642
Cash Deposits	28,737	-	-	28,737
Other Investment assets	-	-	-	-
Investment Income due	858	-	-	858
Amounts receivable for sales	-	892	-	892
<b>Net Investment Assets</b>	<b>472,727</b>	<b>114,337</b>	<b>323,720</b>	<b>910,784</b>

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

<b>Financial liabilities at fair value through profit &amp; loss</b>				
Payable for investment purchase		(1,403)		(1,403)
<b>Total</b>	<b>472,727</b>	<b>112,934</b>	<b>323,720</b>	<b>909,381</b>

Values as at 31 March 2021	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£000's	£000's	£000's
<b>Financial assets at fair value through profit &amp; loss</b>				
Equities	217,762			217,762
Pooled Investments	349,001	2,972	110,739	462,712
Pooled Property Investments		29,795	65,503	95,298
Private Equity/Infrastructure			69,691	69,691
Cash Deposits	13,132			13,132
Investment Income due		2		2
Amounts receivable for sales	990	3		993
<b>Net Investment Assets</b>		423		423
<b>Financial liabilities at fair value through profit &amp; loss</b>	<b>580,885</b>	<b>33,195</b>	<b>245,933</b>	<b>860,013</b>
<b>Financial liabilities at fair value through profit &amp; loss</b>				
Payable for investment purchase		(219)		(219)
<b>Total</b>	<b>580,885</b>	<b>32,976</b>	<b>245,933</b>	<b>859,794</b>

**16(b) Transfers between Levels 1 and 2**

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

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

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

	Market Value 1 April 2021 £'000	Transfer in to level 3 £000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2022 £'000
Overseas Venture Capital	9,985		2,063	(3,264)	391	729	9,904
Overseas Equity Funds	59,822		34	-	8,027	-	67,883
Private Credit Funds	50,916		10,508	(13,806)	(440)	(185)	46,993
UK Property	65,505		54,265	(7,909)	8,656	800	121,317
UK Venture Capital	59,705		15,696	(2,146)	3,170	508	76,933
Overseas Equities	-	830	-	-	(140)	-	690
	<b>245,933</b>	<b>830</b>	<b>82,566</b>	<b>(27,125)</b>	<b>19,664</b>	<b>1,852</b>	<b>323,720</b>
	Market Value 1 April 2020 £'000	Transfer in to level 3 £000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2021 £'000
Alternatives	50,583			(50,583)	(11,200)	11,200	-
Overseas Venture Capital	8,508		2,541	(1,321)	(227)	484	9,985
Overseas Equity Funds			50,583		9,239		59,822
Private Credit funds	51,230		3,998	(5,099)	787		50,916
UK Property	66,088		1,200		(1,783)		65,505
UK Venture Capital	49,950		7,257	(333)	2,831		59,705
<b>Total</b>	<b>226,359</b>		<b>65,579</b>	<b>(57,336)</b>	<b>(353)</b>	<b>11,684</b>	<b>245,933</b>

Transfers to level 3 reflect the investment into Infrastructure as part of the implementation of the revised Investment Strategy and the holdings with Brilliance China which have been temporarily suspended from trading in Hong Kong due to financial irregularities of a subsidiary in the group.

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

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



**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

**Sensitivity of Assets Valued at Level 3**

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Assessed valuation range (+/-)	Value at 31 March 2022 £'000	Value on increase £'000	Value on decrease £'000
Overseas Venture Capital	15.0	9,904	11,389	8,418
Overseas Equities Fund	13.5	67,883	77,047	58,718
Private Credit	10.5	46,993	51,927	42,058
UK Property	8.5	121,317	131,022	111,612
UK Venture Capital	9.5	76,933	84,241	69,624
Overseas Equities	5.5	690	727	652
<b>Total</b>		<b>323,720</b>	<b>356,353</b>	<b>291,082</b>

**17 CLASSIFICATION OF FINANCIAL INSTRUMENTS**

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

31 March 2021				31 March 2022		
Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000		Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000
			<b>Financial assets</b>			
217,762	-	-	Equities	140,492	-	-
462,713	-	-	Pooled Investments	512,852	-	-
95,298	-	-	Pooled Property Investments	139,927	-	-
69,691	-	-	Infrastructure	87,026	-	-

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

-	13,132	-	Cash		28,737	
-	994	-	Other Investment balances		858	
-	423	-	Debtors		892	
<b>845,464</b>	<b>14,549</b>	<b>-</b>		<b>880,297</b>	<b>30,487</b>	
			<b>Financial Liabilities</b>			
-	-	(219)	Creditors			(1,403)
-	-					
<b>845,464</b>	<b>14,549</b>	<b>(219)</b>	<b>Total</b>			<b>(1,403)</b>
	<b>859,794</b>				<b>909,381</b>	

**17 (a) Net Gains and Losses on Financial Instruments**

31 March 2021 £000		31 March 2022 £000
	<b>Financial assets</b>	
146,959	Designated at fair value through profit & loss	41,089
	Loans & receivables	11
-	<b>Financial Liabilities</b>	-
9	Fair value through profit & Loss	1
(288)	Loans & receivables	(336)
<b>146,680</b>	<b>Total</b>	<b>40,765</b>

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

**18 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

**Risk and Risk Management**

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

acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund’s forecast cash flows.

Responsibility for managing the Fund’s risk rests with the Pension Fund Committee. A Risk Register for the Fund has been established to identify and analyse the risks that the Fund faces and the key messages from this process are covered in the Risk Management Statement on page 16. The Market Risk and Credit Risk aspects below come under the risk category of Assets and Investment in the Risk Register, whilst Liquidity Risk is a separate category of risk. In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

**Market Risk**

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

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

**Other Price Risk**

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

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

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

**Other Price Risk – Sensitivity Analysis**

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

Asset Type	Potential Market Movement %
UK Equities	20.5

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

Global Equities	20.4
UK Bonds	11.5
Property	8.9
Alternatives	10.5
Cash	1.0

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

Asset Type	Value as at 31 Mar 22 £'000	+/- % Change *	Value on Increase £'000	Value on Decrease £'000
UK Equities	29,134	20.5	35,107	23,164
Global Equities	327,672	20.4	394,376	260,968
UK Bonds	67,080	11.5	74,794	59,366
Property	148,064	8.9	161,237	134,890
Alternatives	319,088	10.5	352,701	285,476
Cash	18,343	1.0	18,526	18,160
<b>Total Assets</b>	<b>909,381</b>		<b>1,036,741</b>	<b>782,024</b>

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

### Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2022 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

Asset Type	At 31 March 2021 £'000	At 31 March 2022 £'000
Cash and Cash Equivalents	<b>10,091</b>	<b>31,703</b>

**Interest rate risk sensitivity analysis**

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

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

		Effect on Asset Values	
Asset Type	Value as at 31 Mar 22 £'000	Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	31,703	317	(317)

**Currency Risk**

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

The following table summarises the Fund's currency exposure at 31 March 2022:

Currency exposure by asset type	As 31 March 2022 £'000
Overseas Equities	110,218
Overseas Fixed Income Funds	117,271
Overseas Equity Funds	280,535
Overseas venture capital	9,904
<b>Total</b>	<b>517,928</b>

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

**Currency risk – sensitivity analysis**

<b>Asset Type</b>	<b>Value as at 31 Mar 22 £'000</b>	<b>+/- % Change *</b>	<b>Value on Increase £'000</b>	<b>Value on Decrease £'000</b>
Overseas Equities	110,218	9.2	120,358	100,078
Overseas Fixed income	117,271	8.2	126,888	107,655
Overseas Equity Funds	280,535	9.1	306,063	255,006
Overseas venture capital	9,904	8.6	10,756	9,052
<b>Total Assets</b>	<b>517,928</b>		<b>564,024</b>	<b>471,791</b>

**Credit Risk**

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

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

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2021, including current account cash, was £2.9m (31 March 2021: £1.9m). This was held with the following institutions:

	<b>Rating</b>	<b>Balance at 31 March 2021 £'000</b>	<b>Balance at 31 March 2022 £'000</b>
<b>Bank Current Accounts</b>			
Bank of Scotland	A+	1,952	2,967
Northern Trust	AA	8,139	18,343
<b>Total</b>		<b>10,091</b>	<b>21,310</b>

**Liquidity Risk**

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2022, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

## **19 FUNDING ARRANGEMENTS**

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

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

### **2020 Actuarial Valuation**

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

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

<b>Past Service Funding Position – Scottish Borders Council Pension Fund</b>		
<b>Valuation Date as at 31 March</b>	<b>2017 £m</b>	<b>2020 £m</b>
Value of the Scheme Liabilities	(573)	<b>(650)</b>
Smoothed Asset Value	654	<b>713</b>
<b>Surplus/ (Deficit)</b>	<b>81</b>	<b>63</b>
<b>Funding Level</b>	<b>114%</b>	<b>110%</b>

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

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

### **Valuation Assumptions**

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

### Financial Assumptions

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

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

### Demographic Assumptions

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

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

### Commutation Assumption

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

### 50:50 option

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

## 20 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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



**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

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

	Net Pension Asset/(Liability) as at:		
	31 March 2020 £m	31 March 2021 £m	31 March 2022 £m
Present value of the defined benefit obligations	<b>(887)</b>	<b>(1,088)</b>	<b>(1,057)</b>
Fair Value of Fund Assets* (bid value)	<b>713</b>	<b>860</b>	<b>909</b>
Net Asset/(Liability)	<b>(174)</b>	<b>(228)</b>	<b>(148)</b>

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

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

	At 31 March 2020	At 31 March 2021	At 31 March 2022
	% p.a.	% p.a.	% p.a.
Discount Rate	2.3	<b>2.00</b>	<b>2.7</b>
Pay Increases – Long Term	2.9	<b>3.55</b>	<b>3.9</b>
Pension Increases	1.9	<b>2.85</b>	<b>3.2</b>

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

## 21 CURRENT ASSETS

Current Assets	As 31 March 2021 £'000	As 31 March 2022 £'000
<b>Short term debtors</b>		
Contributions Due – Employees	30	22
Contributions Due - Employers	87	67
	<b>117</b>	<b>89</b>
Transfer value receivable (joiners)	456	1,013
Sundry Debtors	7	13
Prepayments	82	92
<b>Total</b>	<b>662</b>	<b>1,207</b>
<b>Cash Balances</b>	<b>1,952</b>	<b>2,967</b>
<b>Total</b>	<b>2,614</b>	<b>4,174</b>

## 22 CURRENT LIABILITIES

Current Liabilities	As 31 March 2021 £'000	As 31 March 2022 £'000
Transfer value payable (leavers)	566	258
Sundry Creditors	1,939	1,582
Benefits payable	209	570
<b>Total</b>	<b>2,714</b>	<b>2,410</b>

## 23 ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2022 was £1.949m (2021 £1.636m). During the year contributions in totalled £0.458m, while payments out of the AVC fund totalled £0.202m. In accordance with regulation 4(2)(b) of the Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2009 (SI 2009/3093), AVCs are not included in the Pension Fund accounts.

## 24 AGENCY SERVICES

There are no agency service agreements in place.

## 25 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £1.40m (2021: £1.43m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.001m (2021 £0.005m). The Council charged the Pension Fund £0.320m (2021 £0.281m) in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due to Scottish

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

Borders Council by the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2021 £'000	2022 £'000
Due (to)/from Scottish Borders Council	(244)	(50)

### Governance

Six members of the Pension Fund Committee were active members of the Pension Fund during 2021/22. One member of the Pension Fund Committee was in receipt of pension benefits from the Fund.

### 26 KEY MANAGEMENT PERSONNEL

The key management personnel of the Fund is Scottish Borders Council Director- Finance & Corporate Governance. Total remuneration payable is set out below.

31 March 2021 £000's		31 March 2022 £000's
111	Short-term benefits	113
-	Post-employment benefits	-
7	Other long-term benefits	5
-	Termination benefits	-
118	Total	118

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

### 27 CONTINGENT ASSETS

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

### 28 CONTINGENT LIABILITIES

#### GMP Equalisation

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

#### GMP Reconciliation

The exercise known as GMP Reconciliation to reconcile HM Revenue contracted out records with those of pension funds is reaching a conclusion. The full cost implication of this is not yet known. Scottish Ministers are expected to legislate that any LGPS pensions that have been overpaid due

to incorrect GMPs being held should not be reduced. Instead it is expected that overpayments will be ring fenced and frozen at their current level. Final information has been received from HMRC and will be added to the Pensions Administration System, this has been delayed since 2021-22 due to other competing priorities.

**Goodwin**

The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e. where the female member died) on or after 5 December 2005. It is too early to know what the likely effect may be on LGPS members' benefits at this time.

**29 POST BALANCE SHEET EVENTS**

The unaudited Statement of Accounts was issued by the Director Finance & Corporate Governance on 30 June 2022. Events taking place after this date are not reflected in the financial statements or notes.

# **SECTION 4**

# **ADMINISTRATION**

## PENSION ADMINISTRATION STRATEGY

The Pension Administration Strategy approved in 14 December 2021 sets out the procedures and performance standards required by both Scottish Borders Council, as administering authority and the employers with the Fund. The procedures and performance standards are agreed to ensure the efficient and effective administration of the pension scheme. The strategy aims to ensure that

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

## PERFORMANCE

The Pension Administration Strategy sets out the statutory responsibilities of Scottish Borders Council as the administering authority. Service standards and key performance measures are agreed. The performance against these agreed standards and measures are reported annually to the Scottish Borders Council Pension Fund Committee and Pension Fund Board. The performance for the year to 31 March 2022 is set out below.

### Employer Performance Measures

#### Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	905	99.45%
Change notification – within 20 days	872	100%
Retirement info – at least 20 working days before	289	100%
Early leaver notification – within 20 working days	663	100%
Death in service notification – within 10 working days	4	100%

### Contribution Payments

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

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

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

Jedburgh Leisure Facilities Trust	12	-	100%
Borders Sport and Leisure Trust	12	-	100%
AMEY Community Limited	12	-	100%
SB Cares	12	-	100%
CGI	12	-	100%
South of Scotland Enterprise	13	-	100%

There were no late payments received during 2021-22.

### Administering Authority Performance Measures

#### Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	51	20 days	68.00%
Estimates – Transfer Out	64	20 days	56.25%
Estimate – All Other	1,367	10 days	

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

Type of Query	Volume	Target	%age Met
Phone Calls logged	59	5 days	100%
Phone Calls to team	6,022	Not measured	
Emails to <a href="mailto:pensions@scotborders.gov.uk">pensions@scotborders.gov.uk</a> mailbox	4,102	Not measured	
Emails to team members directly	6,692	Not measured	
Correspondence via Members Self Service	550	Not measured	
Total	17,425		

#### Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	15th March 2022
Benefit Statements	by end of August	Issued by 16th August 2021

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

The seventh liaison meeting, held virtually, with all Admitted and Scheduled Bodies was held during 2021/22 and re-enforced the changes that had been made to the annual reporting with the Fund Actuary from the 2020/21 year end and afforded the employers the chance to ask questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

The Annual Benefit Statements were issued in paper format to Deferred Members and loaded into the Member Self Service (MSS) portal, all Deferred Members were invited to sign up for MSS and advised that they will be published here going forward. The Annual Benefit Statements for Active Members were published to MSS and personal invitations to sign up were issued to all members either via the email address held on system or through the Employers.

**Key Administration Tasks**

Task	Total received
New entrants	878
Early leavers	663
Retirements	289
Deaths in service	4
Deaths in deferment	3
Deaths in retirement	120
New Widows(ers), Child Pensions	63
Estimates	1367
Pension credit members	0
Pay all Pensioners on 15th of the month or prior working day when 15th is a non-banking day	100% achieved

**Member Self Service Statistics**

Task	Total Active	Target	% Completed in target
Active Members	4,703	100%	27.52%
Deferred Members	3,194	100%	
Benefit calculations run	12,579		

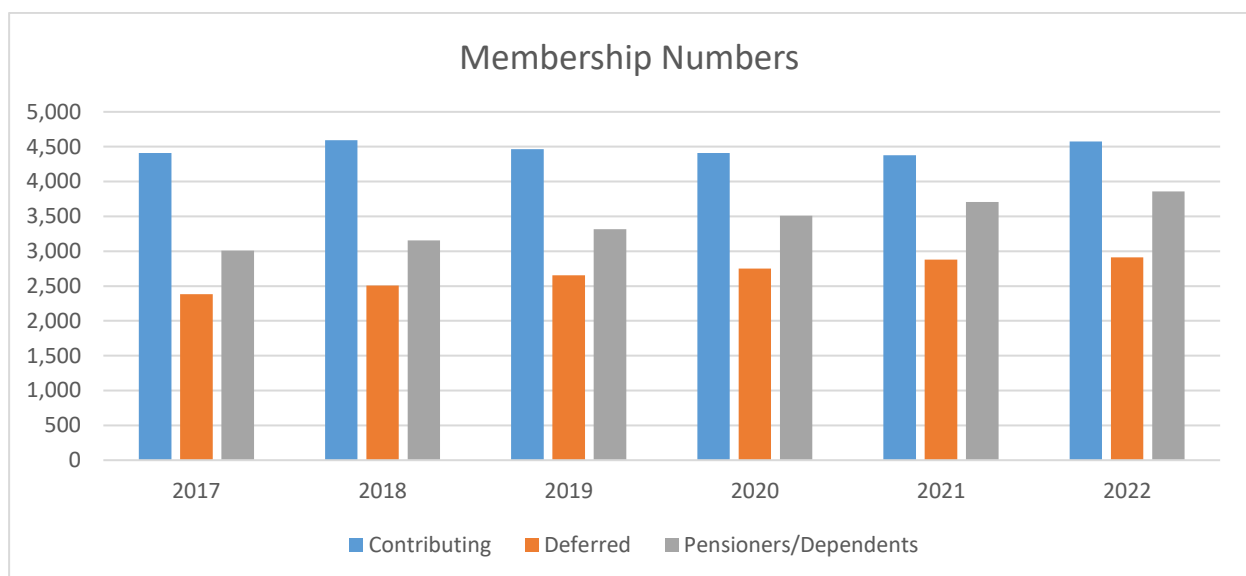


## MEMBERSHIP

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

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

The current membership of the Fund is 12,178, of which 4,703 are actively contributing and 4,281 are in receipt of their benefits. The table over provides a summary of the trends in membership:



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

Membership Details as at 31 March 2022	Number of Contributors	Pensioners	Deferred Pensioners	Total
<b>Scheduled Bodies:</b>				
Scottish Borders Council	4,158	3,806	2,756	10,720
Borders College	211	104	81	396
	<b>4,369</b>	<b>3,910</b>	<b>2,837</b>	<b>11,116</b>
Scottish Borders Housing Association	60	109	73	242
LIVE Borders	119	70	77	266
Jedburgh Leisure Facilities Trust	2	2	-	4
Amey Community Limited (TUPEE Staff only)	2	10	2	14

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

CGI (TUPEE Staff only)	26	10	9	45
South of Scotland Enterprise	125	1	1	127
	<b>334</b>	<b>202</b>	<b>162</b>	<b>698</b>
<b>SB Carers</b>				
SB Carers		126	170	296
Gala Youth Project	-	2	-	2
Scottish Borders Careers	-	3	1	4
L&B Community Justice Authority	-	3	6	9
BC Consultants	-	16	14	30
Others	-	19	4	23
	-	<b>169</b>	<b>195</b>	<b>364</b>
<b>Total</b>	<b>4,703</b>	<b>4,281</b>	<b>3,194</b>	<b>12,178</b>

## COMMUNICATION POLICY AND PERFORMANCE

### COMMUNICATION POLICY

The Fund approved the current Communications Policy on 16 September 2021. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is: -

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

The objective of this policy is to ensure that: -

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

The communication methods utilized are:-

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

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

The Fund has deployed a secure portal for all active and deferred members of the LGPS, which provides direct access for scheme members to view personalised pension data and further enhances the communications with active and deferred scheme members in a modern digital manner. The portal also allows members to carry out the following: -

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

- View all the details they need about their LGPS Pension in real time
- Carry out pension quotes on demand without needing to contact The Pensions Team
- Annual Benefit Statements available to view
- Check and update nominations of beneficiary
- Upload any documents that the Pensions Team request
- Use the contact facility to raise any questions in an electronic manner
- Provide feedback on the MSS application

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

The introduction of the Pension Fund website in June 2018 has allowed members to access information and documents. The table below details the number of visits to the site since it was launched to end of March 2022. The scheme website can be found at [www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)



## COMMUNICATION PERFORMANCE

The following communications took place during 2021/22

- The Employer Liaison meeting was held as a virtual meeting due to the restrictions in place as a result of the Covid-19 situation. In addition to the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years' payroll
- Deployment of Member Self Service with emails issued to all active members to encourage sign up and provide access to the Annual Benefit Statement
- Annual Benefit Statements were issued in hard copy format to all deferred members including information on how to sign up for the Member Self Service portal and newsletter

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2022**

- Information continues to be posted within the Scottish Borders Council Pension Fund website, this included the following: -
- Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
- Information regarding Pensions Increase
- Details of Shared Cost AVC

# **SECTION 5**

# **FUNDING**

## FUNDING STRATEGY STATEMENT

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

The purpose of the Funding Strategy Statement is:

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

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

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

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

Aims To:

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

Purpose To:

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

### **Funding Strategy (Section 5, page 5 of FSS)**

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

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

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

## ACTUARIAL STATEMENT

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

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

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

### Triennial Valuation 2020

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

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

	Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2014 £m	2017 £m	2020 £m
Value of the Scheme Liabilities	487	(573)	(650)
Smoothed Asset Value	490	654	713
<b>Surplus/ (Deficit)</b>	<b>3</b>	<b>81</b>	<b>63</b>
<b>Funding Level</b>	<b>101%</b>	<b>114%</b>	<b>110%</b>

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

Note 19 to the Statement of Accounts on page 56, contains details of the outcome and assumptions used in the 2020 Valuation and the impact that it had on employer contribution rates.

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

### Employer Contribution Rates

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

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

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

### Valuation for Statutory Accounts at 31 March 2022

Note 20 to the Statement of Accounts on page 57, contains the present Actuarial Valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £148m. However, the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2020 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the Fund. The full version of the Actuary report and the current Funding Strategy is available via the Pension Fund website: [Pension Fund](#)



# SECTION 6

# INVESTMENTS

## STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SIP) is the Funds' investment policy document and is reviewed regularly. The SIP is updated to reflect any changes agreed by the Pension Fund Committee, the latest approved document, approved on 17 March 2022, can be found at [Statement of Investment Principles](#).

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

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

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

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

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

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

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

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

## INVESTMENT STRATEGY

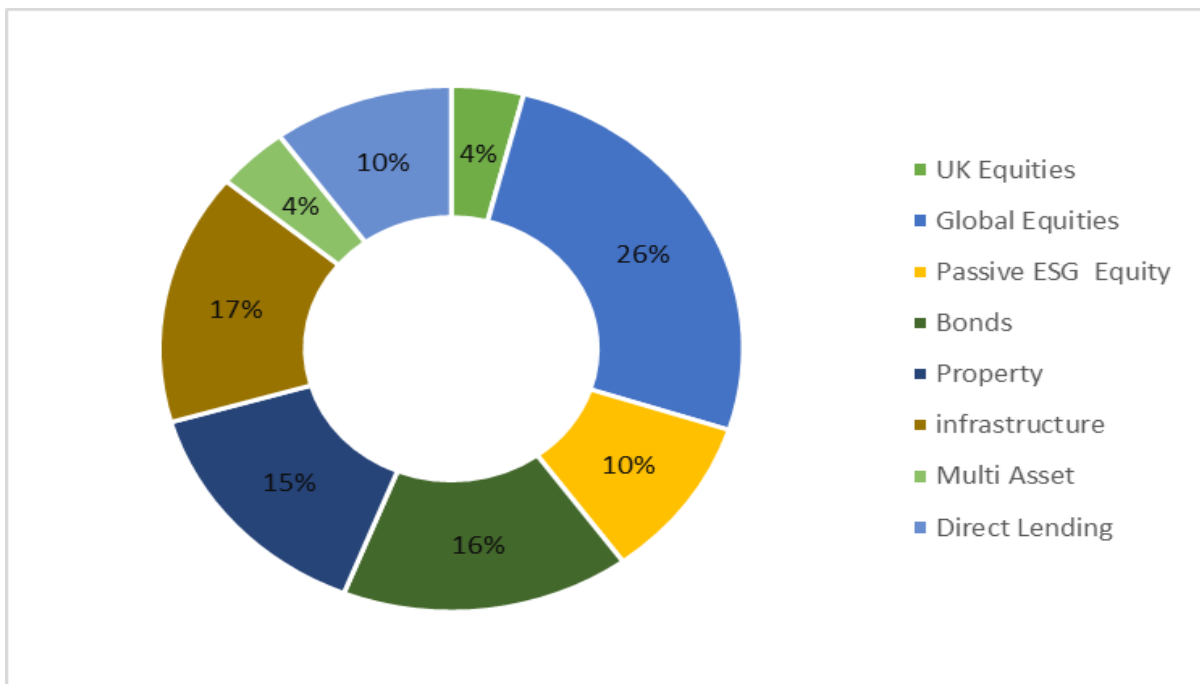
The Fund's investment objective is to support the Funding Strategy by adopting an Investment strategy and structure, which incorporates an appropriate balance between risk and return.

Following the 2020 Triennial Valuation, which showed the Fund at 110% funded, the Fund looked to increase diversification from volatile equity markets and to spread the risk across an increased number of managers.

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

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

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



The strategic asset allocation approved maintained the allocation for equities but approved the movement of the passive equities into a ESG focused passive fund and the movement of Baillie Gifford Global equities into their Paris Aligned global equity fund. The review also introduced and allocation to Housing, increased the allocation to Long Lease property and increased the allocation to infrastructure. These changes were made to increase the alignment of investments with liabilities and to increase the income generating investments to ensure funds are available to pay liabilities as they become due.

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

The strategic asset allocation also diversifies the risk exposure in its use of managers. The Fund currently has 11 Fund Managers over 13 funds; excluding Infrastructure. Shown below are the current Fund Managers,



**BLACKROCK**



Morgan Stanley



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



**Brookfield**



**DALMORE CAPITAL**



**KKR**



**OAKTREE**

The implementation of the Investment Strategy commenced in June 2021 saw the appointment of LGIM for ESG Passive Equity and IFM for Infrastructure (funding not yet drawn down). The table over shows the position as at 31 March 2022 against the Strategy:

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

Asset Class	Asset Allocation at 31/3/21 %	Asset Allocation at 31/3/22 %	Strategic Benchmark %
UK Equity	13.1	3.2	4.0
Global Equity	32.9	36.0	36.0
Bonds	20.8	20.3	16.0
Alternatives	13.0	12.7	14.0
Property	11.1	16.3	14.5
Infrastructure	8.1	9.5	15.5
Cash	1.0	2.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Investment Manager Allocation

Each external Investment Manager is appointed to manage a specified % allocation of total fund investment assets. The breakdown of the Fund's assets by Investment Manager, mandate type and asset class at 31 March 2021 and 31 March 2022 are show in the table below

Manager	Mandate Type	31 Mar 2021 (%)	31 Mar 2022 (%)
UBS	Pooled Fund -UK Equities	6.0	0.0
Baillie Gifford	UK Equities	7.1	3.2
Baillie Gifford	Global Equities	19.1	12.6
Morgan Stanley	Pooled Fund - Global Equities	13.8	13.0
LGIM	Pooled Fund – Global Passive Equities	-	10.3
M&G	Pooled Fund - Diversified Income	13.5	12.9
M&G	Pooled Fund - Bonds	7.3	7.3
UBS	Pooled Fund -Property	4.3	2.9
Blackrock	Pooled Fund – Property	6.8	13.3
LGT	Pooled Fund - Alternatives	6.9	7.4

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2022**

Partners Group	Pooled Fund – Private Credit	3.2	3.5
Permira	Pooled Fund – Private Credit	2.9	1.7
KKR	Infrastructure	0.4	0.3
Infrared	Infrastructure	0.1	0.1
Dalmore	Infrastructure	1.6	1.6
Brookfield	Infrastructure	0.2	0.4
Macquarie	Infrastructure	0.2	0.4
Equitix	Infrastructure	0.2	0.2
Allinda	Infrastructure	0.4	0.4
Gaia LP	Infrastructure	0.2	0.3
Oaktree	Infrastructure	0.3	0.0
Macquarie	Pooled Fund -Infrastructure Debt	4.5	5.8
Cash	Internally Managed Cash & Investments	1.0	2.4

### Holdings

The table below shows the top 20 direct holdings at 31 March 2022. All holdings are held with the Baillie Gifford Global and UK equities portfolios.

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Anthem Inc Com	4.5	Alphabet Inc Cap	3.9
Microsoft Corp	3.8	Moodys Corp	3.6
Taiwan Semicon	3.0	Amazon Com Inc	2.9
Prosus N.V	2.9	Tesla Inc	2.7
Gallager Arthur J & Co	2.7	Pernod Ricard NPV	2.4
Service Corp Intl	2.4	Mastercard Inc	2.2
Prudential	2.2	AIA Group Ltd	2.1
Olympus Corp	2.0	CBRE Group	1.9
The Trade Desk Inc	1.8	Cloudflare Ince	1.7

Thermo Fisher Corp

1.7

Estee Lauder Companies

1.6

## INVESTMENT PERFORMANCE

### MARKET CONTEXT

The start of 2021/22 was dominated by continuing effects of Covid-19 across the globe. as countries continued to implement supportive monetary policies and fiscal support to their economies which were received positively by the markets.

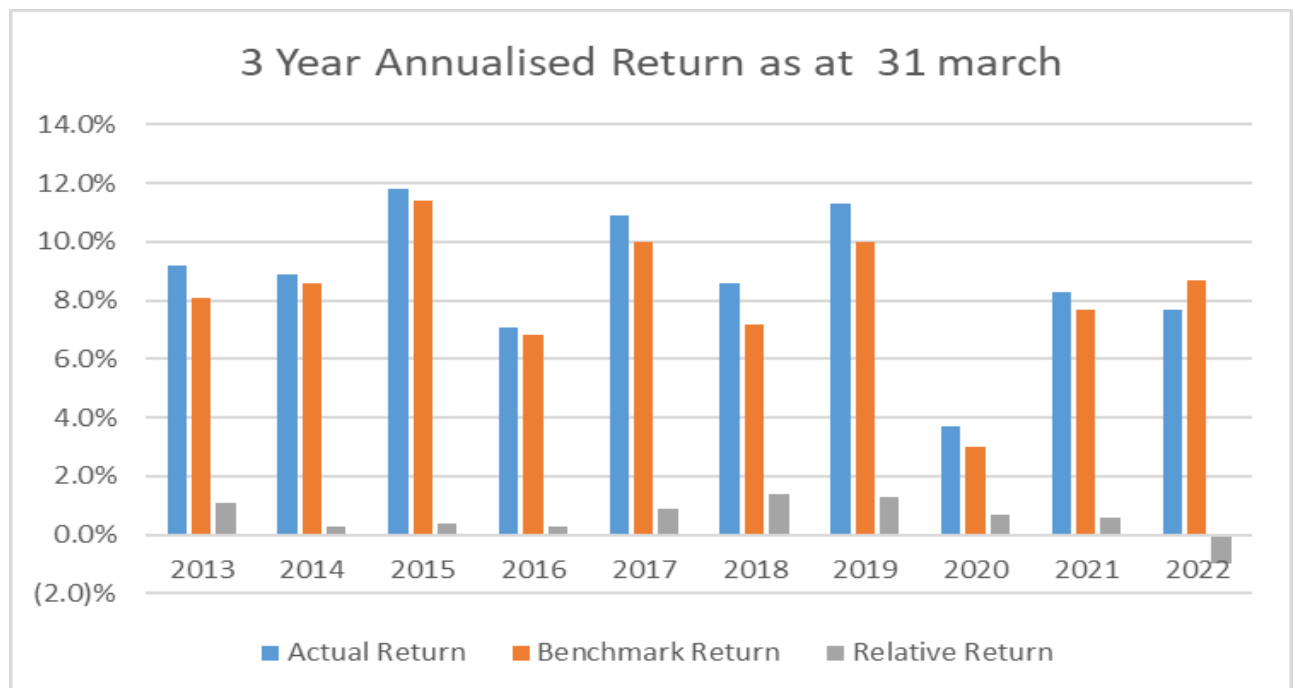
February 2022 saw Russia's invasion of Ukraine resulting in significant ramifications for asset classes globally. The expected impact of economic sanctions and supply chain issues underpinned equity markets volatility and a widening credit spread (meaning valuation fell). Commodity prices also spiked, given the region is a key exporter of several important raw materials including oil, gas and wheat. This contribute to a further surge in inflation.

Nominal and real gilt yields rose sharply driven by the Bank of England raising the base interest rate twice and the increasingly inflationary outlook. Given the high inflationary environment, index linked gilts outperformed nominal gilts, albeit still driving negative returns.

Real assets such as long lease property and infrastructure have been resilient and posted positive performance during the year despite the global volatility.

### FUND PERFORMANCE

The Fund's investment returns delivered a positive return of 5.9% during 2021/22 (20.1% 2020/21) against a benchmark of 10.6% (18.3% 2020/21) for the year to 31 March 2022. Overall the Fund's assets increased by £50m from 31 March 2021. The 2021/22 performance although under its benchmark was a positive return in volatile and difficult market conditions. The table over details the 3 year annualised return once which is also slightly under benchmark for 2021/22.



## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

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

The Fund achieved a positive return of 5.9% against a benchmark of 10.6% for the year.

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

Return on Investment as at 31/3/2022	1 year rolling return		3 year rolling return	
	Fund %	Bench <sup>1</sup> %	Fund %	Bench <sup>1</sup> %
<b>Total Fund</b>	<b>5.9</b>	<b>10.6</b>	<b>7.7</b>	<b>8.7</b>
Global Equities	0.5	14.0	<b>12.3</b>	14.7
UK Equities	0.9	13.2	<b>2.5</b>	5.6
Bonds	2.9	3.9	<b>4.5</b>	3.5
Alternatives	8.1	5.3	<b>6.3</b>	4.7
Property	17.3	15.0	<b>6.1</b>	7.2
Cash	-	-	-	-

The table over shows the key driver of fund underperformance over the 1 and 3 years were UK and Global Equities, particularly over the 1 year period. This was driven by marked underperformance from Baillie Gifford and their growth style over the periods

Over the 1 year period Bonds also underperformed slightly with Alternatives and Property outperforming. Over the 3 year period Bonds and Alternatives outperformed their respective benchmark whilst Property, UK and Global Equities underperformed.





## **RESPONSIBLE INVESTMENT**

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

The Fund approved a revised Statement of Responsible Investment Policy on 17 March 2022 setting out the approach to responsible investment and arrangements to monitoring manager performance against the principles of the policy on an annual basis. The key principles within the policy are:

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

The approved Policy also approved 6 key responsible investment objectives. 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
- SDG 10 – Reduce Inequalities

Work has commenced in the assessment and collection of data to allow reporting and monitoring of SDG13 Climate change and SDG 7 Affordable & clean energy. Due to the lack of robust measurement criteria or data the remaining objectives will be reviewed regularly as data collection is developed.

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

The Responsible Investment Policy also requires the Fund to review and report on an annual basis the performance of Managers. The third monitoring report was presented and approved by the Pension Fund Committee on 14 December 2021. The key highlights of this report are as follows:

- 16 out of 17 Managers are signatories of UNPIR representing 99.8% of the Fund.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

- Internal scoring methodology scored 98.8%; of the funds managed by managers, scored 80% or more than the total available scores, compared to 96.8% in the previous monitoring period.

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

The Fund actively investigates opportunities to increase investment in sustainable funds. This active management resulted in a £94m investment with LGIM in their Global ESG Passive Equity fund and the transition of £114m from the Baillie Gifford Global Equity Fund to their Global Paris Aligned Fund.



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

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



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

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2022

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

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

Due to the work of Climate Action 100 and other there were a record 215 climate-related shareholder resolutions in the recent 2022 proxy season. Work undertaken also saw the first ever net zero accounting related resolution at a FSTE 100 AGM. Climate Action 100 with support of signatories like Scottish Borders Council Pension Fund continue to work with companies to make improvements and commitments to Climate change targets.

## **SECTION 7**

# **INDEPENDENT AUDITORS REPORT**

## CONTACT DETAILS

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

Pensions Team

Telephone 01835 – 825052/3

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

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

or visit Scottish Borders Council Pension Fund website at:

[www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)

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

Kirsty Robb

Telephone 01835 – 825249

Pension & Investment Manager

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

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

Contact us at Kirsty Robb, Pension & Investment Manager,  
Council Headquarters, Newtown St Boswells Melrose TD6 0SA  
Tel: 01835 825249 Fax: 01835 825011 or email: [KRobb@scotborders.gov.uk](mailto:KRobb@scotborders.gov.uk)



## **INFORMATION UPDATE**

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

---

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

**29 June 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 Within the Pension Fund Business Plan, as presented earlier, there is a commitment to review the services provided by our IT providers to ensure the data is secure and adheres to cyber security requirements.
- 2.2 Heywood Pension Technologies, the provider of our Pensions Administration system, have provided a Cyber Review Summary for 2022, this has outlined their approach to quality assurance and security. In December 2021 an independent third-party security company were engaged to undertake the Cyber Security Review for 2022.
- The review covered: -
- Internal and External Infrastructure
  - Server Builds
  - Customer Portal
  - Web application testing, including Altair and Member Self Service
- There were no critical or high issues identified within the Heywood Cloud infrastructure.
- 2.3 As part of the on-going commitment to data protection security and investment in Heywood Technologies business they are also maintaining up to date certificates for ISO27001, ISO9001 and Cyber Essentials.

### **3 OVERSEAS LIFE CHECKS**

3.1 At the March meeting we reported that there one member who had not yet returned the life certificate and that payment of pension had been suspended. We have now received this life certificate and payment of pension has been reinstated and the missing periods have now been paid to the member.

### **4 SCHEME ADVISORY BOARD**

4.1 The last reported meeting of the Advisory Board was 23<sup>rd</sup> February was reported to Joint Committee and Board on 17 March. The Bulletin of this meeting is contained on appendix 1. The agenda contained the following items

- Cost Transparency
- Structure review project
- Climate Risk

4.2 A meeting was scheduled for 20<sup>th</sup> April, however no papers or bulletin are available for this meeting.

### **5 STEWARDSHIP CODE**

5.1 The Fund agreed in September 2021 to submit an application to become a signatory of the UK Stewardship Code. A submission was submitted on 29 October 2021 in the knowledge that there were some key areas of work to be completed.

5.2 A response has been received from FRC declining our submission on this occasion but also providing some very positive feedback and highlighting areas for further development for us.

5.3 Officers met with FRC to further go over the response and are currently developing a plan to ensure the updated submission in October 2022 is successful. Many of the required actions are currently already underway with the completed review of the Responsible Investment Policy in September 2021 and the work currently being undertaken on the implementation of the responsible investment monitoring.



## 6 TRAINING OPPORTUNITIES

- 6.1 DG Publishing are holding a DB Strategic Investment Forum on 28<sup>th</sup> September 2022 at The Sheraton, Edinburgh. The program includes their Fixed Income, Climate Change, affordable housing and Private markets. The full agenda has been circulated for names.
- 6.2 Baillie Gifford are hosting their bi-annual LGPS Conference on 9<sup>th</sup> & 10 November. Once the agenda is finalised it will be circulated and notes of interest sought. There will be a limited number of places for this event and members of the Committee and Board will be asked to confirm if they would like to attend in due course.
- 6.3 Officers continue to monitor other training opportunities and these will be shared with the Committee and Boards as they become available.

## 7 FUTURE MEETINGS

- 7.1 The dates of future meetings are given below for information.

Joint Pension Fund Committee and Pension Fund Board

- Thursday 15 September 2022
- Wednesday 19 October 2022
- Tuesday 13 December 2022

Pension Fund Investment Performance Sub Committee

- Monday 26 September 2022

### Author(s)

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

This page is intentionally left blank

March 2022

# BULLETIN

## Cost Control

The Treasury has consulted on two options for how elements of the McCloud costs should be included in the LGPS cost control mechanism. This is a technical consultation, and although there would be potentially significant repercussions if there was a breach of the cost collar, it appears unlikely that either option would lead to this. The SAB felt the consultation did not provide enough clarity on the implications of either option, and has invited a GAD representative to the next meeting.

The SAB previously decided to explore the potential of being able to intervene in the scheme to avoid the cost collar being breached. The English and Welsh SAB has such a mechanism, and with the cost collar moving to 3% around the target rate, any breach would have a significant financial impact on members or employers. A sub-group has been established to explore different options, and review the experience south of the border.

## Structure Review Project

The project group has researched and extensively analysed existing reports and information relating to options for the future. It then undertook a gap analysis of information which would be needed to develop detailed business cases for the various options. To take this through to completion in the specified level of detail would require additional time and resources, and therefore the SAB has decided to seek clarification from Scottish Ministers on the nature of the advice they want to receive from the SAB.

## Climate Risk

The working group on climate risk reporting indicated that funds were making progress towards the Taskforce for Climate Related Financial Disclosures' aspirations, noting that these are currently voluntary. No major changes are currently needed to practice, but funds are encouraged to maintain progress in this area, and larger funds to offer support to other funds if it is requested.

In addition, SAB observers to the Responsible Investment Advisory Group reported back on developments on climate risk reporting on investments. Whilst this has been introduced for larger private sector funds, there have not been proposals put forward regarding the LGPS at this stage. This is a significant area of work, and will be kept under review by the SAB.

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

This page is intentionally left blank

The information in this letter is only for the person or entity to which it is addressed.  
The contents may not be made public by the recipient before the FRC updates the UK Stewardship Code 2020 signatory list on Thursday, 10 March 2022.

Mrs Kirsty Robb  
Scottish Borders Council Pension Fund  
Council Headquarters  
Newtown St Boswells  
Melrose  
TD6 0SA

Tuesday, 8 March 2022

## Application Outcome: Unsuccessful

Dear Mrs Robb

Thank you for submitting your Stewardship Code application.

We regret that Scottish Borders Council Pension Fund has not met the expected standard of reporting in 2021 and will not be listed as a signatory to the UK Stewardship Code ('the Code') at this time.

We will publish the list of signatories and reports on our website on **10 March 2022**, but we will not publish the names of organisations that applied and were unsuccessful. Please treat this letter as confidential until the FRC has published the list.

### Your report

We read your report in full and assessed it against the Principles and reporting expectations of the Code in a way that is proportionate to your organisation's size and type. This assessment was then reviewed and discussed with the team to ensure it was fair and appropriate. A sample of reports reflecting a range of applicants was reviewed by our panel of independent advisors to ensure consistency.

Below is written feedback, and a summary of where your reporting met our expectations and where improvement is needed. You should also read the FRC's [Effective Stewardship Reporting: Examples from 2021 and expectations for 2022](#) which provides guidance and examples to support applicants.

## Next steps

This letter sets out our final decision for this assessment period and we do not discuss individual assessments. We understand that this letter may be disappointing, but we encourage you to address our feedback and apply again in future. Details about reporting periods and application deadlines are on the FRC's [website](#).

Yours sincerely



David Styles  
Director, Corporate Governance and Stewardship

## Stewardship Report Feedback

While your Stewardship Report overall has not met the standard to become a signatory on this occasion, it demonstrated promising reporting in some areas. It is written in an open and transparent way and references that the Fund is on a journey. We encourage you to invest in your practices, for example taking a more active role in directing your managers in line with your own values and expectations. Addressing the areas identified in this feedback and the following table will make a future application more likely to be successful.

Your strongest reporting was on Principles 1, 5 and 7.

In Principle 3, you should provide the key features of the conflicts of interest you follow, for example the types of things covered, and an outline of the process followed when a conflict is identified, for example if a member were to declare one. Better reporting would provide a link to the conflicts of interest policy you mentioned.

In Principle 4, promoting well-functioning markets, you mention that you follow CIPFA's risk management process, but you could better explain how you assess the market and fund risks. For example, is this a regular agenda item at committee meetings, do you systematically require input from the parties you mention? You should also include some of the risks you identify. Your reporting does explain that you document the risks and revisit them regularly.

In Principle 6, you should report on how you seek members' views, and any action you have taken because of taking these views into account. Your report should explain what you have done on seeking views and taking them into account in the reporting year, or if explain if this is done periodically, for example through a survey, and identify what has been done in the reporting year and where in the cycle you are.

Your report should also explain how the needs of beneficiaries have been reflected in stewardship and investments aligned with an appropriate investment time horizon. This reporting could, for example, give an indication of the time horizons you consider appropriate for investment, and how this may vary across your asset allocation.

Also in Principle 6, your report should include an approximate breakdown of the Fund's assets under management across asset classes and geographies. This would put the reporting on other Principles (including investment approach, engagement and exercising rights) in context and allow the reader to better understand the scope and coverage of the Fund's stewardship activities, and the stewardship activities undertaken on your behalf.

In Principles 9 - 12, you are clear in your reporting that this has been identified as an area for improvement by the Fund and you identified steps you will take. You explain the relationship you have with asset managers and that selection is an important part of your process. We recognise this disclosure, and your report should include examples of the activity undertaken by your managers on your behalf (and the outcomes of this), to demonstrate their stewardship in action. Your report should include examples and case studies across engagement, collaborative engagement, escalation and exercising rights and

responsibilities.

We hope you can address our feedback and apply to become a signatory in 2022.

**Principle 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.**

✓	Signatories should explain the purpose of the organisation and an outline of its culture, values, business model and strategy
✓	Signatories should explain their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why
✓	Signatories should explain what actions they have taken to ensure their investment beliefs, strategy, and culture enable effective stewardship
✓	Signatories should disclose how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making
✗	Signatories should disclose an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

**Principle 2 – Signatories’ governance, resources and incentives support stewardship.**

✓	Signatories should explain how their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach.
✗	Signatories should explain how they have appropriately resourced stewardship activities, including their chosen organisational and workforce structures
✗	Signatories should explain how they have appropriately resourced stewardship activities, including their seniority, experience, qualifications, training and diversity
✓	Signatories should explain how they have appropriately resourced stewardship activities, including their investment in systems, processes, research and analysis
✓	Signatories should explain how they have appropriately resourced stewardship activities, including the extent to which service providers were used and the services they provided
✗	Signatories should explain how any performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making
✓	Signatories should disclose how effective their chosen governance structures and processes have been in supporting stewardship; and Signatories should disclose how they may be improved

**Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**

✗	Signatories should disclose their conflicts policy and how this has been applied to stewardship
---	---



✘	Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.
✔	Signatories should disclose examples of how they have addressed actual or potential conflicts

**Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**

✘	Signatories should explain how they have identified and responded to market-wide and systemic risk(s), as appropriate.
✔	Signatories should explain how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets.
✘	Signatories should explain the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples.
✘	Signatories should explain how they have aligned their investments accordingly.
✘	Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.

**Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.**

✔	Signatories should explain how they have reviewed their policies to ensure they enable effective stewardship
✔	Signatories should explain what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach
✔	Signatories should explain how they have ensured their stewardship reporting is fair, balanced and understandable
✔	Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes

**Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**

✔	Signatories should disclose the approximate breakdown of the scheme(s) structure i.e. whether the scheme is a master trust, occupational pension fund, defined benefit or defined contribution etc.
✔	Signatories should disclose the approximate breakdown of the size and profile of their membership, including number of members in the scheme and the average age of members
✘	Signatories should disclose the approximate breakdown of assets under management across asset classes and geographies
✘	Signatories should disclose the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why
✘	Signatories should explain how they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach

✘	Signatories should explain how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon
✔	Signatories should explain what they have communicated to beneficiaries about their stewardship and investment activities and outcomes to meet beneficiary needs, including the type of information provided, methods and frequency of communication
✔	Signatories should explain how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries
✘	Signatories should explain how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result
✘	Signatories should explain where their managers have not followed their stewardship and investment policies, and the reason for this

**Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.**

✔	Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include ESG issues of importance to them.
✘	Signatories should explain how integration of stewardship and investment has differed for funds, asset classes and geographies
✔	Signatories should explain how they have ensured tenders have included a requirement to integrate stewardship and investment, including material ESG issues
✔	Signatories should explain how they have ensured the design and award of mandates included requirements to integrate stewardship and investment to align with the investment time horizons of beneficiaries
✘	Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries

**Principle 8 – Signatories monitor and hold to account managers and/or service providers.**

✔	Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.
✔	Signatories should explain how the services have been delivered to meet their needs
✔	Signatories should explain the action they have taken where signatories' expectations of their managers and/or service providers have not been met

**Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.**

✔	Signatories should explain the expectations they have set for others that engage on their behalf
---	--

✘	Signatories should explain how they have developed well-informed and precise objectives for engagement with examples
✘	Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.
<b>Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.</b>	
✓	Signatories should disclose what collaborative engagements they have participated in and why, including those undertaken directly or by others on their behalf.
✘	Signatories should describe the outcomes of collaborative engagement.
<b>Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.</b>	
✓	Signatories should explain the expectations they have set for asset managers that escalate stewardship activities on their behalf
✘	Signatories should explain when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples
✘	Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf
<b>Principle 12 – Signatories actively exercise their rights and responsibilities.</b>	
✘	Signatories should state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf
✘	For listed equity assets signatories should disclose their voting policy, including any house policies and the extent to which funds set their own policies
✘	For listed equity assets, signatories should explain their rationale for some or all voting decisions
✘	For listed equity assets, signatories should explain the extent to which voting decision were executed by another entity, and how they have monitored any voting decisions on their behalf
✘	For listed equity assets, signatories should explain how they have monitored what shares and voting rights they have
✘	For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank



Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank



Document is Restricted

This page is intentionally left blank