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PENSION FUND COMMITTEE AND PENSION BOARD TUESDAY, 13 DECEMBER 2022

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA MICROSOFT TEAMS on TUESDAY, 13 DECEMBER 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,

2 December 2022

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 3 - 6) Minute of Meeting held on 19 October 2022 to be noted and signed by the Chairman. (Copy attached).	
5.	Risk Register Update (Pages 7 - 12) Consider report by Acting Chief Financial Officer. (Copy attached).	10 mins
6.	Business Plan Performance Update (Pages 13 - 22) Consider report by Acting Chief Financial Officer. (Copy attached.)	10 mins
7.	Pension Fund Budget Monitoring to 30 September 2022 (Pages 23 - 28) Consider report by Acting Chief Financial Officer. (Copy attached.)	10 mins
8.	Overpayment Policy (Pages 29 - 46) Consider report by Director – People, Performance and Change. (Copy attached.)	10 mins
9.	Responsible Investment Monitoring (Pages 47 - 50)	10 mins

	Consider Action Plan by Isio. (Copy attached.)	
10.	Taskforce for Climate Related Disclosures Governance Policy (Pages 51 - 56) Consider Climate Governance Policy by Isio. (Copy attached.)	10 mins
11.	The Pensions Regulator Single Code Review and Recommendations (Pages 57 - 74) Consider review of the governance of Scottish Borders Council's Pension Fund by Clare Scott, Independent Advisor. (Copy attached.)	20 mins
12.	Information Update (Pages 75 - 76) Consider Scheme Advisory Board Bulletin. (Copy attached.)	10 mins
13.	Any Other Items Previously Circulated	
14.	Any Other Items which the Chairman Decides are Urgent	
15.	Items Likely To Be Taken In Private Before proceeding with the private business, the following motion should be approved:- "That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act."	
16.	Quarter 3 Investment Performance Report Consider report by Isio Investment Authority (To follow).	20 mins
17.	Environmental, Social, and Governance Impact Assessment 2022 Report (Pages 77 - 112) Consider report by Isio Investment Authority. (Copy attached.)	20 mins

NOTES

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

Membership of Committee:- Councillors D.Parker (Chairman), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, J. Pirone, S. Scott, Mr D Bell, Mr A Daye, Mr M Drysdale, Mr M Everett, Ms K M Hughes, Ms K Robb and Ms L Steven

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

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
Via Microsoft Teams on Wednesday, 19
October 2022 at 10.00 am

Present:- Councillors D. Parker (Chairman), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, J. Pirone, S. Scott, Mr A. Daye, Ms K. Hughes, Ms L. Stephen, and Ms K. Robb.

Apologies:- Councillor W. McAteer, Mr D. Bell and Mr M. Drysdale

In Attendance: Acting Chief Executive, Acting Chief Financial Officer, Chief Officer Audit and Risk, HR Shared Services Manager, Democratic Services Officer (D. Hall).

Also in Attendance: Mr A Haseeb and Ms Amanda Fitzpatrick (Audit Scotland)

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 15 September 2022.

DECISION

NOTED for signature by the Chairman.

2. **EXTERNAL AUDIT REPORT**

2.1 There had been circulated copies of the report by Audit Scotland, the Council's external auditors. The report explained that Audit Scotland's work on the 2021/22 annual report and accounts were substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of annual accounts for final review, it was anticipated that Audit Scotland would be able to issue unqualified audit opinions in the independent auditor's report on 24 November 2022. Under International Standards on Auditing in the UK, specific matters were reported arising from the audit of financial statements to those charged with governance of a body in sufficient time to enable appropriate action. The report set out conclusions from Audit Scotland's consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice. The report would be issued in final form following the certification of the annual accounts. Mr Haseeb explained that the Committee and Board have stewardship of approximately £900m in pension fund asset value. £25m was paid per annum in benefits, with approximately 12,000 members. It was confirmed that the unadjusted misstatements were below the level of materiality, and Audit Scotland concurred with the decision not to adjust them. Regarding intended fraud, the Members in attendance confirmed that they were unaware of any frauds. Mr Haseeb highlighted that as part of the completion of the audit, written representations had been sought from the Acting Chief Financial Officer on aspects of the annual accounts, including the judgements and estimates made. A letter of representation template had been attached as Appendix B to the report, which was required to be signed and returned by the Acting Chief Financial Officer with the signed annual accounts prior to the independent auditor's report being certified.

2.2 Ms Amanda Fitzpatrick of Audit Scotland highlighted that the current audit appointment round was due to end in 2020/21, but had been extended for one year due to Covid-19. The procurement process for 2022/23 to 2026/27 had been completed in May 2022, with Audit Scotland again appointed as the external auditor for the Fund. The audit team, engagement lead, and other staff would be changed for the 2022/23 audits onwards. Ms Fitzpatrick presented the report and highlighted its key points to Members. The Acting

Chief Executive emphasised that despite the Fund having appeared to have performed near the bottom of the range of returns compared to other Funds, it had continued to deliver healthy positive returns on behalf of its members, and had done so with considerably less risk compared to the other Funds. In response to a question regarding level three estimates and the requirement to make estimations within the defined timescales, which resulted in out of date information being used, Mr Haseeb acknowledged that the issue occurred on annual basis, but stressed that the difference only became a concern if they were above the level of materiality – which was set at a high level. The Acting Chief Executive stressed that timing issues seen in the accounts arose on annual basis where officers were required to make an estimate without all of the required information available from investment managers. The Chairman thanked Mr Haseeb and Ms Fitzpatrick for their work with the Fund over their term as part of the Audit team.

DECISION

APPROVED the report to be put forward to a meeting of the Audit Committee and then Scottish Borders Council.

3. FINAL ANNUAL REPORT AND ACCOUNTS 2021/22

With reference to paragraph 11 of the Minute of the meeting held on 29 June 2022, there had been circulated copies of a report by the Acting Chief Financial Officer which provided the Joint Pension Fund Committee and Pension Fund Board with an opportunity to scrutinize the final Annual Report and Accounts for the Pension Fund for 2021/22 prior to their submission to the Audit Committee and then Scottish Borders Council for signature. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, the list of those were contained in the report. The final Annual Report and Accounts contained in Appendix 1 to the report fully met those requirements. Audit Scotland had completed their audit and had provided an unqualified independent audit opinion. The Scottish Borders Council's Pension Fund Annual Audit Report highlighted four new recommendations and followed up five recommendations from previous audits. Actions plans had been agreed for each of the recommendations. The report had been presented to members of both the Pension Fund Committee and the Pension Fund Board for them to recommend the final Annual Report and Accounts for 2021/22 (the Annual Report) for approval prior to submission to Scottish Borders Council for signature. The Acting Chief Financial Officer highlighted that the recommendations had been accepted and timings agreed. In terms of governance, the report and accounts would be sent to the Audit Committee due to be held on 23 November 2022, following which they would be presented to Scottish Borders Council on 24 November 2022. The Chief Officer, Audit and Risk explained that regarding improvement actions in the report, concurrent work was ongoing related to overpayment. It was recommended that an overpayment policy for the Pension Fund was put in place, and work would take place to ensure that there was consistency in the policy principles.

DECISION

AGREED the Pension Fund Annual Report and Accounts 2021/22 for Officer signature and Council Approval.

4. PRIVATE BUSINESS

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

SUMMARY OF PRIVATE BUSINESS

5. MINUTE

The Committee noted the Private Minute of the meeting of 15 September 2022

The meeting concluded at 10.30 am

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RISK REGISTER UPDATE

Report by Acting Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

13 December 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 a schedule detailing updated risks and proposed management actions to mitigate the risks.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A virtual risk workshop was held on 4 May 2022 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 29 June 2022 and then reviewed on the 15th September 2022.
- 1.4 Appendix 1 details the risks within the approved risk register which have been updated at the end of quarter 2, identified management actions and the progress of these actions to date. Four actions have been updated following the introduction of the Overpayments Policy (3.1, 5.4, 5.6 and 6.1) with the only red risk also being reviewed and updated (6.2).
- 1.5 There were no new risks identified during the review.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Note the management actions progress as contained in Appendix 1;**
 - (b) **Notes no new quantifiable risks have been identified since the last review; and**
 - (c) **Agrees to an update on progress of management actions to be presented, based on the quarter 3 position, in March 2023.**

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, was approved on 29 June 2022, setting out the aims and objectives of the Pension Fund. These aims and objectives fully considered and recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

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

- 3.5 To comply with the Council's revised policy of risk management and best practice, a Risk Management reporting cycle was developed around the performance and business plan reporting of the Pension Fund. As a result the following cycle of reporting was adopted:
- | | |
|-------------|---|
| Quarterly | <ul style="list-style-type: none">Quarterly Investment Performance Report;Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;Update on progress of risk management action delivery. |
| Bi-Annually | <ul style="list-style-type: none">Mid-Year Progress report on Business Plan Actions;Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;Update on progress of risk management action delivery. |
| Annually | <ul style="list-style-type: none">Annual Governance Meeting with Annual Report and Policy/Strategy Performance Reports;Annual reporting on progress with Business Plan and approval of updated Business Plan;Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks. |

4 RISK REGISTER UPDATE

- 4.1 A full risk workshop was undertaken on 4 May 2022 by Officers from the Pension and Investment Team, Human Resources Shared Services and Internal Audit & Risk in order to ensure that the risk register's contents were still relevant and up-to-date. The updated full risk register was approved by the Pension Fund Committee on 29 June 2022.
- 4.2 The risk register has now been reviewed at the end of quarter 2 with progress on the individual management actions identified in the current risk register as detailed in Appendix 1. Four actions have been updated following the introduction of the Overpayments Policy (3.1, 5.4, 5.6 and 6.1) with the only red risk also being reviewed and updated (6.2).
- 4.3 There were no new risks identified during the review.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

The purpose of providing the update to the Committee and Board is to improve the risk management framework for the Pension Fund and demonstrate that the Members of the Pension Fund Committee and the Pension Board understand the risks faced and how it is proposed to manage, mitigate or tolerate these risks. The 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, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

Suzy Douglas

Acting Chief Financial Officer Signature

Author(s)

Name	Designation and Contact Number
Suzy Douglas	Acting Chief Financial Officer

Background Papers:

Previous Minute Reference: Pension Fund Committee and Pension Board 29 June 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.

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Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 30/11/22
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	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 Introduction of Overpayment policy to formalise controls and procedure TOLERATE	Effective	2	2	4	Additional controls added to reflect introduction of the Overpayments policy
5.4	Administrative	Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds.	Lack of monitoring; Lack of segregation of duties.	Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members.	Ongoing	HR Shared Services Manager	Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk. Introduction of Overpayment policy to formalise controls and procedure TREAT To request from each External Employers audited accounts to provide assurance on their internal controls	Effective	2	2	4	Wording has been agreed and this will be added to the template SUP5 for 2022/23
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	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. Introduction of Overpayment policy to formalise controls and procedure TOLERATE	Partially Effective	2	2	4	Additional controls added to reflect introduction of the Overpayments policy
6.1	Regulatory & Compliance	Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation	Changes to legislation; Lack of staff training; Lack of knowledge and skills	Wrong pension payments made or estimates given; Breach of regulations; Prosecution.	Ongoing	HR Shared Services Manager/ Pension & Investments Manager	Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates; External Audit review extends beyond financial controls; Pension Board review of decisions; Appraisal process implemented to identify training and development requirements. Introduction of Overpayment policy to formalise controls and procedure TREAT 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	Competency Framework implemented for all staff along with new appraisal process. Annual review meetings taking place. Review commissioned on required changes resulting from Single Code. Full report to be presented to Committee

Pension Fund - Risk Register actions updates

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 30/11/22
6.2	Regulatory & Compliance	Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	Central Govt. legislation changes. Government Actuary Department review and subsequent regulatory changes	Loss of independence in the management of the Fund; Impact on Fund value and benefits; Increased costs to the Fund, employer contributions; Potential loss of active scheme members.	Ongoing	Dir Fin & Corp Govern/ Dir People, Perform & Change	<p>Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly;</p> <p>Involvement with COSLA discussions on Pensions;</p> <p>Monitoring and highlighting actions and decisions from scheme advisory board;</p> <p>TREAT</p> <p>Seek to input into any of the legislative change through active membership of COSLA;</p> <p>Review and actions to be developed for requirements under The Pension Regulator Single Code</p>	Partially Effective	4	4	16	Responding to all consultations and participating in all national groups. Acting Chief Financial Officer is a member of Director of Finance group. Monitoring Scheme Advisory Board web site on monthly basis. Review commissioned on required changes resulting from "Single Code". Full report to be presented to Committee.

BUSINESS PLAN PERFORMANCE UPDATE

Report by Acting Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

13 December 2022

1 PURPOSE AND SUMMARY

- 1.1 This report is to provide members of the Committee and the Board with an update on delivery of the actions within the approved Business Plan.**
- 1.2 The 2022/23 – 2024/25 Business Plan for the Pension Fund was approved by the Committee/Board on 29 June 2022. Included within the plan were key objectives and actions with target dates. A summary of the progress on the actions are included in Appendix 1.
- 1.3 As part of the risk register update approved at Committee/Board on 15 September 2022 it was agreed that a mid-year progress report on the business plan actions would be presented to Members at the December 2022 meeting and a further progress report and update at the June 2023 meeting.
- 1.4 There are 25 key tasks due for completion during 2022/23. As detailed in Appendix 1, all actions are progressing or are complete with exceptions and delays in delivery outlined in section 4.2 of this report.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:**
 - (a) Notes the progress of the 2022/23 actions within the business plan;**
 - (b) Agrees the revised target dates for the actions in section 4.2 below.**

3 BACKGROUND

- 3.1 Local Government Pension Scheme (LGPS) administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the “Myners Principles” and the reporting on compliance, as required by the LGPS Regulations, must be included in the Statement of Investment Principles.
- 3.2 Best practice indicates that having a business plan for the Pension Fund is a good way of demonstrating compliance with the “Myners Principle” that underpin effective decision making. The Pension Fund Committee and Board approved the 2022/23 – 2024/25 business plan on 29 June 2022.
- 3.3 As part of the risk register update approved by Committee/Board on 15 September 2022 it was agreed a progress report on the actions contained within the business plan would be reported to the Committee and Board at the December 2022 meeting.

4 ACTION PLAN – PROGRESS UPDATE

- 4.1 The action plan approved at the joint meeting on 29 June 2022 detailed how the achievement of the objectives within the business plan would be measured. Appendix 1 shows the actions to be completed in 2022/23 and provides an update on each individual action.
- 4.2 There are 25 key tasks due for completion during 2022/23. As detailed in Appendix 1, all actions are progressing or are complete with exceptions and delays in delivery outlined in the table below.

P1-A1	Fund Investment Performance at Benchmark	Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis	The fund has not met its benchmark target in the last financial year. Review investment performance with Isio to see if there is way this could be enhanced.
P3-A4	Development and publication of newsletter for publication and inclusion on Pension Fund web-site	31/12/2022	Delayed 31/03/2023 – resourcing challenges have delayed completion
P4-A1	Review of admission agreement	31/12/2022	Delayed 31/03/2023 - Delayed due to competing priorities – progress being made
P4-A2	Review of employer guarantees	31/12/2022	Delayed 31/03/2023 - Delayed due to competing priorities – progress being made
P5-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	30/09/2022	Delayed 31/03/2023 - Progress has been made and plan in place for remaining adjustments to be applied
P7-A1	Implementation of workflow	31/12/2022	Delayed 30/06/2023 - Delayed due to implementation of Altair Insights and Image, resources have been prioritised based on requirement to deliver statutory elements
P7-A2	Implementation of i-Connect	31/12/2022	Delayed 30/06/2023 – as above re P7-A1
P8-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/2022	Delayed 31/03/2023 - Delayed pending outcomes of the Governance Review

5 IMPLICATIONS

5.1 Financial

There are no financial implications to this report.

5.2 Risk and Mitigations

The monitoring of the delivery of actions within the Business Plan including identification of responsible officer and timescales, as set out in this report, is part of the governance framework to manage the operation of the Pension Fund and ensure effective decision making. Some of the actions are designed to directly enhance the management of risks. Progress on actions associated with relevant risks will be considered as part of the next cycle of Risk Register review activity.

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 are being consulted and any comments received will be communicated at the meeting.

Approved by

Name: Suzy Douglas **Signature**

Title: Acting Chief Financial Officer

Author(s)

Name	Designation and Contact Number
Suzy Douglas	Acting Chief Financial Officer
Ian Angus	HR Shared Services Manager

Background Papers: Pension Fund Business Plan 2022/23 – 2024/25

Previous Minute Reference: Joint meeting Pension Fund Committee and Pension Fund Board, 29 June 2022.

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

Contact us at Pensions & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 PSA
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APPENDIX 1

What we want to achieve ... (Objective)

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

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

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Progress
P1-A1	Fund Investment Performance at Benchmark	Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis	The fund has not met its benchmark target in the last financial year. Review investment performance with Isio

			to see if there is way this could be enhanced.
P1-B1	Triennial Actuarial Valuation Funding Level of assets against liabilities	100%	
P1-B2	Data provision review to meet the requirements of Actuary	By 30/06/2023	Due 2023
P1-C1	Correct employer contribution rates in Pensions System for each employer	By 30/06/2021	Complete
P1-C2	Pension Fund Committee approval of Funding Strategy Statement	By 30/06/2022	Complete
P2 – A1	Undertake full review of strategic asset allocation	By 30/09/2024	Due 2024
P2 – B1	Agree plan for implementation of approved strategic asset allocation	By 31/12/2024	Due 2024
P2 – B2	Action plan for strategic asset allocation implementation	By 31/12/2024	Due 2024

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	Develop and Implement an effective Communication Strategy for the Pension Fund							
		Review Communication Strategy and Action Plan in line with best practice and technological advancements	P3-A1	HRSS Manager	•	•	•	•
		Continue to proactively manage and engage Pension Fund Employers	P3-A2	HRSS Manager	•	•	•	
		Review all forms and communication material, including annual benefit statements	P3-A3 P3-A4	HRSS Manager P&I Manager	•	•	•	•
P 4	Ensure stability of Employers							
		Review of Employer covenants	P4-A1 P4-A2	HRSS Manager	•			
P 5	Ensure accuracy of Pension Records							

			Complete full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC	P5-A1 P5-A2	HRSS Manager	•			
			Consider the implications of the McCloud case	P5-A3	HRSS Manager	•			
			Consider the implications of the Goodwin case	P5-A4	HRSS Manager	•			
			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	Promotion of self service facility							
			Promotion and Improvement of self service facility	P6-A1 P6-A2 P6-A3	HRSS Manager	•	•		
P	7	System improvements to support home working							
			Consider implementation of workflow	P7-A1	HRSS Manager	•			
			Implementation of i-Connect for large employers	P7-A2	HRSS Manager	•			
			Digitisation of historical records	P7-A3	HRSS Manager	•			
			Continued promotion of availability for online payslip and P60's	P7-A4	HRSS Manager	•			

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Progress
P3- A1	Review of Communications strategy and action plan	30/09/2022	Complete
P3-A2	Hold Annual Employer Liaison Meeting	1 meeting by 31/03/2023	On track
P3-A3	Annual review of all forms, communication material, including annual benefit statements	31/08/2022	Complete
P3-A4	Development and publication of newsletter for publication and inclusion on Pension Fund web-site	31/12/2022	Delayed 31/03/2023

P4-A1	Review of admission agreement	31/12/2022	Delayed 31/03/2023
P4-A2	Review of employer guarantees	31/12/2022	Delayed 31/03/2023
P5-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	30/09/2022	Delayed 31/03/2023
P5-A2	Review of Common and Specific Data following annual review and return to The Pension Regulator.	31/12/2022	On track
P5-A3	Review all guidance and communication on McCloud case implications	31/03/2023	On track
P5-A4	Review all guidance and communication on Goodwin case implications	31/03/2023	On track
P5-A5	Review all guidance and communication of Pensions Dashboard, engaging with Pension Admin system provider as necessary	31/12/2023	Due 2023
P5-A6	Review all guidance and communication on Stronger Nudge on Pensions	30/09/2022	Complete
P5-A7	Present Overpayment Policy to Pensions Committee to improve governance arrangements	30/09/2022	Complete
P5-A8	Review the Privacy Notice to ensure this is in line with current data requirements	31/12/2022	On track
P6-A1	Promotion of self service to all active and deferred members	31/08/2022	Complete – Ongoing
P6-A2	Implementation of updated version of Self Service on a like for like basis	30/06/2023	Due 2023
P6-A3	Consider additional enhancements being developed for Self Service	30/06/2023	Due 2023
P7-A1	Implementation of workflow	31/12/2022	Delayed 30/06/2023
P7-A2	Implementation of i-Connect	31/12/2022	Delayed 30/06/2023
P7-A3	Digitisation of historical records	31/12/2023	Due 2023
P7-A4	Promotion of online payslips and P60's	31/03/2023	Complete – Ongoing

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	
P	8	Continue to develop robust governance and risk management						
		Review and update Governance Policy and Compliance Statement	P8-A1	P & I Manager	•		•	

			Develop and deliver 2021/22 Training Programme	P8-A2 & A4	P & I Manager	•			
			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 is 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	•			
P	9	Review services provided by IT providers to ensure data is secure and adheres to cyber security requirements							
			Implement annual assurance requirement for IT providers	P9-A1, A2 & A3	HRSS Manager	•	•	•	•
P	10	Review services provided externally to ensure that these represent best value to the Fund							
			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	Progress
P8-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2020	30/06/2022	Complete
P8-A2	Pension Fund Committee approval of Training Policy 2020 and Training Programme 2021/22	30/06/2022	Complete
P8-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/2022	Delayed 31/03/2023
P8-A4	Training Needs Self-Assessment Levels from 2020/21 to 2021/22	30/06/2022	Complete
P8-A5	Agree Action plan for implement of Responsible Investment monitoring	30/06/2022	Complete
P8-A6	Provide revised responsible investment monitoring report format	31/12/2022	On track
P8-A7	Undertake review of Stewardship Code 2020 and recommendations for adherence	31/12/2022	Complete

P8-A8	Implement recommendation from Stewardship Code review	30/09/2022	Resubmitted
P8-A9	Undertake review of TPR Single code and highlight changes required to meet the new code	30/09/2022	Complete
P8-A10	Implement changes required to meet code requirements	31/12/2022	On track
P9-A1	Request assurance of cyber security policy being in place from Aquila Heywood on an annual basis	30/09/2022	Complete
P9-A2	Request assurance of cyber security policy being in place from CGI on an annual basis	30/09/2022	Request submitted
P9-A3	Request assurance of cyber security policy being in place from Hymans Robertson on an annual basis	30/09/2022	Request submitted
P10-A1	Undertake procurement exercise for Custodian	30/09/2023	Due 2023
P10-A2	Undertake procurement exercise for Actuary	31/12/2024	Due 2024
P10-A3	Under review of provision of Pension Administration system	31/03/2023	Due 2023



PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2022

Report by Acting Chief Financial Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

13 December 2022

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 30 September 2022 including projections to 31 March 2023.**
- 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 17 March 2022 following the recommendations within the CIPFA accounting guide lines headings. This report is the second quarterly monitoring report of the approved budget.
- 1.4 The total expenditure to 30 September 2022 is £1.186m with a projected total expenditure of £7.4m. Following the amendment to the revised budget last quarter, there is no current requirement for any further amendments.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee:-

- (a) Notes the actual expenditure to 30 September 2022.**
- (b) Notes the projected out turn position to 31 March 2023.**

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 17 March 2022 for 2022/23. 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 are also included.
Administration	Costs incurred in administration of the fund including staff, IT costs and associated overheads and benefits consultants.
Oversight and governance	Costs incurred in the selection & appointment of managers, audit fees, investment advisory services, tax advisory, accounting services, banking service and support to the pensions committee and board.

4 MONITORING TO 30 SEPTEMBER 2022

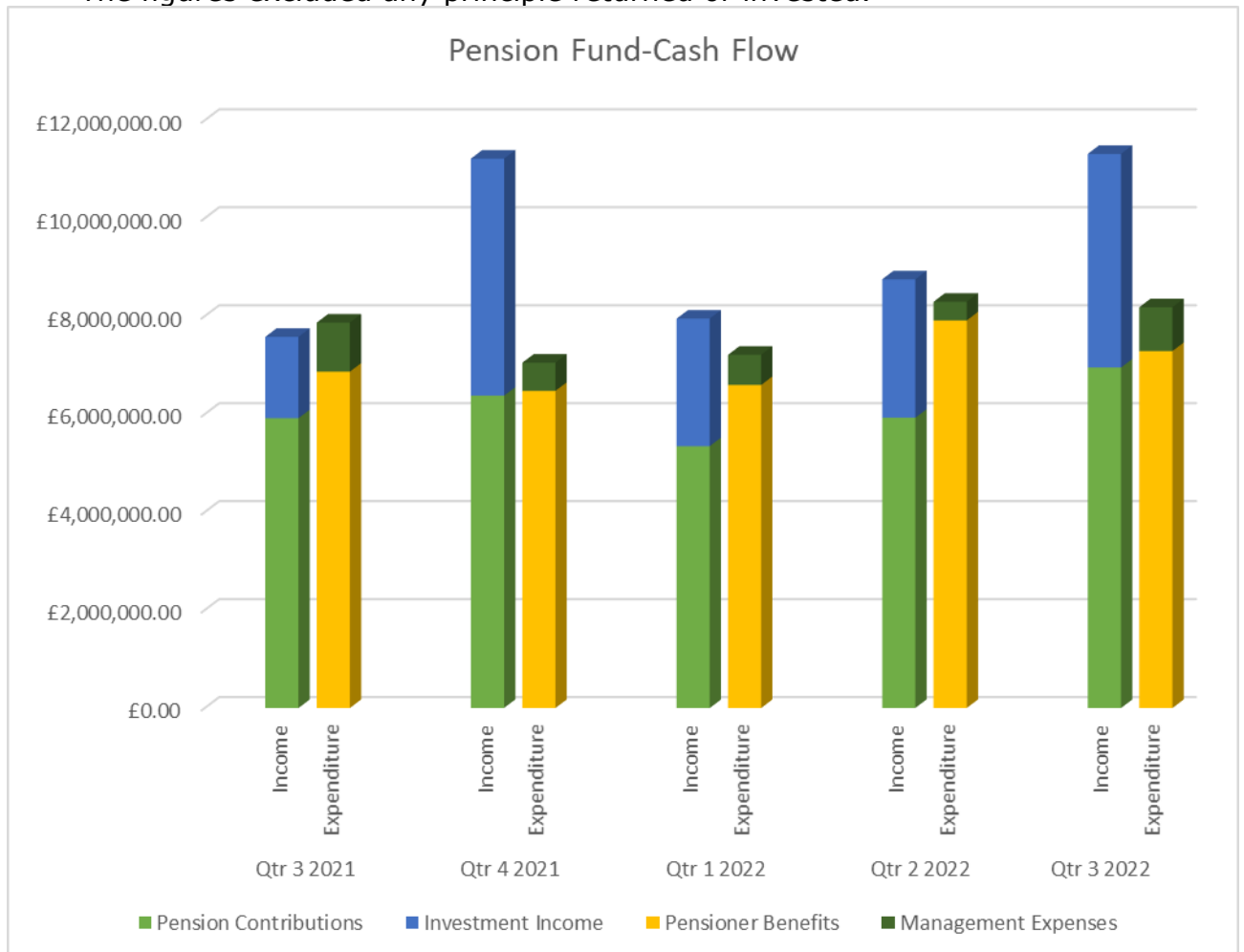
- 4.1 The table below shows the expenditure to 30 September 2022, projected outturn to 31 March 2023 and current approved budget for 2022/23.

	Expenditure to 30 September 22 £000's	Projected to 31 March 23 £000's	2022/23 Budget £000's	2022/23 Variance £000's
Investment Management	1,046	6,564	6,564	0
Administration	114	497	497	0
Oversight & Governance	26	339	339	0
Total	1,186	7,400	7,400	0

- 4.2 Investment Management fees are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. The second quarter's investment management fees are not therefore included in the expenditure to 30 September 2022.

5 CASHFLOW MONITORING

- 5.1 A key objective of the Fund is to ensure the funds are in place to pay the members' benefits. The Fund has been a mature fund since 2013/14 with the number of pensioners and their dependants exceeding contributing members. This in turn has resulted in the monthly cash out goings for pension benefits and expenses being higher than the contributions collected from active members.
- 5.2 To ensure the Fund continues to meet its primary objective the investment strategy approved by Committee incorporates an element of income generating assets to supplement member and employer contributions. These income generation assets are expected to enable the cash flow requirements of the Fund to be fully met without the requirement to disinvest from assets.
- 5.3 The graph below reflects cash expenditure for pension benefits, investment manager fees and operational costs of the Fund on a quarterly basis from July 2021 to September 2022. 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 quarters with surplus income and others with deficits. However over the 15 month period shown the total cash received

was £47.6m, cash expenditure was £38.6m, resulting in a cash surplus of £9.0m 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 Council's Risk Management framework, with specific 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

Suzy Douglas
Acting Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Suzy Douglas	Acting Chief Financial Officer 01835 82600 extension 5881

Background Papers: Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 15 September 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.

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OVERPAYMENT POLICY

Report by Director – People, Performance and Change

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

13 December 2022

1 PURPOSE AND SUMMARY

- 1.1 This report seeks approval for the adoption of the Overpayment Policy for the Fund. This formalises practices that have been in place within the Fund and addresses the recommendation within the 2021/22 Annual Audit Report from Audit Scotland.**
- 1.2 Overpayment of Pension is not something that any party wishes, however, it has to be recognised that this can occur and it is appropriate that the Fund has adopted a Policy that outlines the steps and actions that should be taken. It is also important to recognise that there are different potential causes for overpayment which have different recovery options. These are all outlined within the Overpayment Policy which can be found at Appendix 1.
- 1.3 The recovery of any overpayment will be done in a fair and equitable manner and where recovery is to be made this will be sought without any undue delay. If it is appropriate, determined on a case by case basis, legal advice will be sought. Additionally, the Fund will ensure that there are clear processes in place to prevent and investigate any potential fraudulent activity.
- 1.4 There may be circumstances where it is appropriate to write off an overpayment rather than seeking to make recovery, this will generally be where the overpayment is less than £20.00 and it does not make economic sense to recover on the grounds of the cost of Officers time and associate costs, such as postage, against the amount outstanding. The write off values and authority to write off have been set in line with the Council's Financial Regulations.
- 1.5 The Pensions Team have established controls in place for monitoring overpayment balances and repayments, these controls are subject to audit examination as part of the Annual Audit carried out. The Team also takes a pro-active approach to the prevention of overpayments through internal controls and the use of Tell Us Once to allow for early reporting of the death of scheme members.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee approves the Overpayment Policy as set out in Appendix 1.**

3 BACKGROUND

- 3.1 Within the Annual Audit Report for 2021/22, as presented to the Joint Meeting of the Pension Fund and Board on 19 October 2022, the following recommendation was made: -

“Whilst a scheme of delegation is in place for the council there is a need to consider an appropriate scheme of delegation for decisions that impact on the pension fund. This should include guidance on what circumstances would give rise to not seek recovery of overpayment, and what entity should bear the cost of that overpayment.”

This recommendation was accepted by Officers along with the intention to agree a formal overpayment policy for the Pension Fund which would be presented to the Pension Fund Committee and Board for approval.

- 3.2 Overpayments are something that do occur from time to time, either as a result of error, receipt of late information, but most commonly due to the death of a pensioner in the period from when the monthly pensioners payroll has been processed and payment date. The payroll is normally processed 7 calendar days before payment date to allow a period of contingency and meeting the deadlines for submission of payment files via BACS.
- 3.3 The Pensions Team have looked to recover any overpayment that has occurred, as mentioned in the above paragraph these are most commonly following the death of a member in receipt of a monthly pension payment. Where there is a payment due to a spouse or dependant any overpayment would be recovered from these payments. Where there is no further payments due contact would be made with the executor of the estate to seek repayment of these monies in the first instance.
- 3.4 There is already an established procedure in place for the recording of overpayments, this is monitored on a monthly basis and balanced back to the general ledger with verification carried out and sign off from a second Officer within the Pensions Team. The balance sheet code is also provided to External Auditors as part of the Annual Audit checks.

4 PROPOSAL

- 4.1 **Appendix 1** contains the proposed Overpayment Policy, this formally documents processes that have existed within the Pensions Team, clearly outlines the steps and responsibilities for all parties and addresses the recommendation within the Audit Scotland Annual Audit Report for 2021/22.
- 4.2 The Policy has been designed to provide assurance to the scheme members and stakeholders of the Scottish Borders Council Pension Fund that: -
- Overpayments will be treated in a fair and equitable manner, taking into consideration the circumstances of the overpayment;

- Where recovery is to be made this will be sought without undue delay;
- Legal advice will be taken as and when necessary; and
- The Fund will have clear processes in place to prevent and investigate potential fraudulent activity.

4.3 The most common reason for overpayment of pension is following the death of a scheme member, this tends to be where the member has passed away in the period between payment of the monthly pension being processed and payment date. This is something that is entirely unavoidable due to processing timeframes.

The Pensions Team will make contact with whoever is handling the deceased's estate regarding any overpayment, where there is a survivor payment being made the amount overpaid will be recovered from monies due. Where there is no survivor recovery, will be sought from the estate, unless the value is below £20.00 where it would be uneconomical to do so in terms of administration costs.

4.4 Other reasons for overpayment could be as follows: -

- Incorrect information supplied by Scheme Employer
- Where scheme member should have known the error (e.g. Re-employment or Child Dependant payment ending)
- Where scheme member could not have known of the error

The reason for overpayment would then dictate the route that would be taken in order to seek recovery of the amount overpaid or not in the event of the reason being within the realms of the final bullet point listed above.

4.5 The Fund will seek to recover overpayments that have occurred in the last six years, in accordance with the Statute Limitations. If an overpayment occurred out with the last six years the appropriate proportion, where payment spanned the six year cut off, or the entire amount if prior to the six year period will be written off.

In line with the Scottish Borders Council Financial Regulations the Fund will apply the following levels of authority should a write off be requested for an overpayment: -

Total Value of Overpayment	Authority to Write Off Overpayment
Up to £20	Pensions Team Leader
£20.01 to £5,000	HR Shared Services Manager
£5,000.01 to £50,000	Financial Services Manager, or Director People, Performance & Change
£50,000.01 to £100,000	Director People, Performance & Change in consultation with Director Finance & Corporate Governance
Over £100,000	Pension Fund Committee

4.6 All overpayment recovery periods will be agreed with the scheme member or survivor, generally this will be over the same number of months that the overpayment occurred in the first instance. If this approach would cause financial hardship a statement of income and expenditure will be sought from the member and appropriate payment plan agreed with the scheme member.

In the event that a scheme member refuses to engage with the Fund, following repeated attempts by Fund Officers, recovery would commence without the prior agreement of the member. However, the member will be given written notification in advance of the recovery commencing.

4.7 The monitoring process already in place within the Pensions Team will continue, being balanced to the general ledger on a monthly basis with sign off by a second Officer within the Team.

4.8 The Fund already takes a pro-active approach to the identification of fraudulent activity and prevention of overpayment, this policy formal outlines these controls, as follows: -

- Tell Us Once for the notification of deaths of scheme members
- Annual Life Certification for overseas pensioners
- Annual check on dependent child payments
- National Fraud Initiative
- Monthly variance checks on Gross Pension payments
- Independent Officer check on Lump Sum Payments

4.9 Information on disputes along with contact details are also included in the Policy, as follows: -

- Internal Disputes Resolution Procedure (IDRP)
- Money Helper
- The Pensions Ombudsman

4.10 This Policy will be kept under review to ensure that it complies with relevant legislation, mirrors the write off levels within the Scottish Borders Council Financial Regulations and has the correct contact details for the organisations who can assist members with disputes.

5 IMPLICATIONS

5.1 Financial

There are no financial implications from this report.

5.2 Risk and Mitigations

By agreeing to the proposal the Pension Fund will demonstrate steps taken to continue to address the following risks, as highlighted in the Fund Risk Register:

- 3.1 – Over reliance on key officers may lead to significant knowledge gaps resulting in failure to manage the Fund effectively
- 5.4 – Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds
- 5.6 – Failure to keep pension records up to date and accurate may lead to incorrect pensions information being issued or incorrect benefits calculations or payments
- 6.1 – 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

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 Acting Chief Financial Officer, 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 Meeting of the Pension Fund and Board on 19 October 2022

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.

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SCOTTISH BORDERS COUNCIL PENSION FUND OVERPAYMENT POLICY

**HR Shared Services
People Performance & Change
Version 2022 1.1 DRAFT**

Approved: Joint Pension Fund Committee and Pension Board [13 December 2022]

1. Introduction

The policy covers overpayment of pension in relation to the Scottish Borders Council Pension Fund, administered by Scottish Borders Council. The day to day administration for the Fund is carried out by the Pensions Team of HR Shared Services within the People, Performance and Change directorate.

There are a range of reasons that an overpayment of pension can occur, as a result it is important that the Fund has a clear policy on how they will manage any overpayment that has been identified.

This policy will be reviewed on an annual basis with any amendments/additions being approved at a joint meeting of the Pension Fund Committee and Board.

2. Who the Policy Covers

This policy will apply to: -

- Members of the Scottish Borders Council Pension Fund
- Executors of the estates of pensioner members of the Scottish Borders Council Pension Fund
- Scheme employers
- Fund Officers within the Pensions Team, HR Shared Services
- Pensions Committee and Board

3. Aims and Objectives of the Policy

This policy has been designed to provide assurance to the scheme members and stakeholders of the Scottish Borders Council Pension Fund that: -

- Overpayments will be treated in a fair and equitable manner, taking into consideration the circumstances of the overpayment; and
- Where recovery is to be made this will be sought without undue delay; and
- Legal advice will be taken as and when necessary; and
- The Fund will have clear processes in place to prevent and investigate potential fraudulent activity.

4. Overpayment of Pension following the death of a Scheme Member

The Fund should be notified immediately on the death of a pensioner member. However, there could potentially be a delay in notification or the Fund may not be notified at all. In such cases, the Fund would not know to take the appropriate action and pension payments would continue to be made, resulting in an overpayment being made and continuing until the Fund were advised of the death.

All correspondence for the Pensions Team in connection with an overpayment following the death of a scheme member will be handled with the utmost sensitivity and care. The Pensions Team will seek to make contact with whoever is handling the deceased's estate, either the Next of Kin or a Solicitor in most instances.

It is the Scottish Borders Council Pension Fund policy to seek to recover any overpayment following the death of a scheme member, unless the value is below £20.00 where it would be uneconomical to do so in terms of administration costs, see section 8 for details of write off limits and who has the authority to request this should repayment not be possible.

5. Overpayment of Pension caused by incorrect Member information supplied by a Scheme Employer

If an overpayment occurs as a result of inaccurate information having been provided by the scheme employer on a member's retirement the Fund will seek to recover the overpayment through the scheme member's ongoing pension. Fund Officers will look to make recovery over the same number of months over which the overpayment occurred.

If the overpayment relates to a previous tax year or recovery on a gross basis cannot be made in one single tax year an Earlier Year Update (EYU) or rework process will be carried out to determine the new amount that the member is required to repay, with recovery being made through the pensioners payroll as a net deduction from monies due.

If the overpayment is all within the same tax year and recovery can be made over the remaining number of months in the tax year then the amount overpaid will be recovered on a gross basis, this will be processed through the pensioners payroll and allow for the appropriate adjustment for tax, unless the member is on a non-cumulative tax code where repayment as a gross amount would disadvantage the member. Each case will be considered by officers and the appropriate course of action taken to either recover as gross or carry out a rework process to determine the net amount.

In order to avoid any further overpayment officers will reduce the scheme member's pension to the corrected amount for the next available payment and notification of the change will be provided to the member in writing.

6. Overpayment of Pension where the Scheme Members should have known of the error

There are circumstances where an overpayment of pension could occur and the scheme member should have reasonably known or would be aware of the error, some examples of this are provided below: -

Re-employment

The scheme member had been awarded Compensatory Added Years (CAY) by their employer on retirement for a previous post. The CAY's are subject to abatement should the member have a further period of employment and the rules around this are conveyed to the member with clear instruction that responsibility lies with them to inform the Pensions Team on re-employment to allow officers to check whether any adjustment is required to their pension. If the scheme member does not advise of the re-employment that can then be discovered through other checks carried out by the Fund, most likely to be the National Fraud Initiative.

Child Dependent

Following the death of a scheme member a pension is paid to a dependent child who is under the age of 18. Scheme documentation states that a pension is payable where the child is under the age of 18, or up to the age of 23 if they are in full time education. If prior to reaching the age of 23 the

dependent child ceases full time education and they fail to advise the Fund of the fact they will continue to receive a pension payment that they are no longer entitled to.

Pension Sharing or Earmarking Order

The scheme member is aware that either of the above are in place, however, the Fund does not receive a copy until after the implementation date and as a result their pension is not reduced from the effective date resulting in the scheme member continuing to receive a pension payment that they are no longer entitled to.

The Fund will seek to recover the total value of the overpayment, with this being recovered from the scheme member's ongoing pension. In order to avoid further overpayment the scheme member's pension will be reduced to the correct rate with effect from the next monthly payment.

7. Overpayment of Pension where the Scheme Members could not have known of the error

There are circumstances where an overpayment of pension could occur and the scheme member could not have reasonably known or would be aware of the error, for example: -

On retirement an error is made in calculating the scheme member's pension entitlement and payments are then made using the incorrectly calculated amount.

The Fund will look to make recovery in the above instances, however, consideration needs to be given to the circumstances of the error and whether or not officers consider that they would be unsuccessful should the member go through the Internal Disputes Resolution Procedure IDRPs process. This may result in the Fund not seeking recovery of the amount overpaid, with write off determined as per the table in section 8 below or alternatively, the Fund may look to freeze the current level of payment until such times as the Pensions Increase application takes the correct amount to a value in excess of the incorrect payment.

8. Recovery of Overpayment

The Fund will seek to recover overpayments that have occurred in the last six years, in accordance with the Statute Limitations, notwithstanding specific exceptions mentioned in earlier sections. Overpayments that have occurred out with the last six years will have the appropriate proportion, or entire amount, written off.

In line with Scottish Borders Council's Financial Regulation, the Fund will apply the following levels of authority should a write off be requested for an overpayment: -

Total Value of Overpayment	Authority to Write Off Overpayment
Up to £20	Pensions Team Leader
£20.01 to £5,000	HR Shared Services Manager
£5,000.01 to £50,000	Financial Services Manager, or Director People, Performance & Change
£50,000.01 to £100,000	Director People, Performance & Change in consultation with Director Finance & Corporate Governance
Over £100,000	Pension Fund Committee

In determining the write off value the amount will either be the actual amount overpaid or where there is a decision not to recover an ongoing pension payment due to the specific circumstances, as

outlined in section 7 above, the value will be determined by multiplying the annual amount overpaid by twenty (the number of years used in the Lifetime Allowance Tax Calculation).

Where the Fund seeks to recover an overpayment it will agree a suitable recovery period with the scheme member, generally this will be over the same number of months that the overpayment occurred in the first instance, with the exception of any fraud cases. However, there may be instances where the scheme member is unable to return the overpayment because they have already spent the money in good faith, for example, paid of the mortgage or gone on holiday. In such instances officers will engage with the scheme member and look to agree a recovery plan. In order to assist with such a determination a statement of income and expenditure should be sought from the member, see Appendix A for template, and an appropriate payment plan agreed thereafter with the scheme member.

The Fund will make all reasonable efforts to engage with the scheme member in respect of any overpayment. Should the scheme member refuse to engage with the Fund despite repeated attempts by Fund Officers, the Fund will proceed with recovery by reducing their monthly pension payments from the next available payment date. The scheme member will be given written notification in advance of the recovery and this should prompt them to get in touch if they wish to negotiate a revised re-payment schedule.

9. Monitoring Re-payments

Where a scheme member has passed away and an overpayment has occurred, Fund Officers will take corrective action within the payroll system to identify the net amount that the member has been overpaid. The net amount overpaid will be allocated to the Fund suspense account (B5117 BP001 Deceased Pensioners – Balance of Payment) where this will be monitored and balanced on a monthly basis, signed off by another officer.

Where recovery is being made on a gross basis the ongoing payment will be amended to the correct value and additional entry for the recovery amount added to the payroll record for the scheme member which will be linked to a reducing balance payment and deduction code. The balance code will end when the remaining value reaches zero and should the scheme member pass away prior to the recovery of the full amount the remaining balance will be incorporated into the final payment calculated ensuring the recovery is collected.

10. Prevention of Overpayments

Scottish Borders Council Pension Fund recognises the need to take a pro-active approach to identifying potential fraudulent activity and preventing overpayments from occurring in the first instance where this is within the Funds control.

The Fund has a number of processes in place in order to minimise the risk of overpayments occurring.

The Fund is signed up to the Tell Us Once service. The service allows a bereaved person to inform central and local government services of a death at one time rather than having to contact each service independently. This ensures that the Fund is notified quickly and allows officers to take the appropriate action to end payments, as a result this reduces the likelihood of an overpayment occurring. Fund Officers update the Tell Us Once service with details of scheme members on a monthly basis to ensure the matching data is accurate.

Scheme members who are in receipt of a pension payment from the Fund and now reside out with the United Kingdom are asked to provide a Life Certificate on an annual basis. In the event of a Life Certificate not being provided within two months of this being requested pension payments are suspended pending further investigation and will only be reinstated, with backdated payment made, once a completed Life Certificate has been provided.

A check is carried out on an annual basis to confirm that those members who are receiving payment due to being a dependent child are remaining in full time education. If there is no confirmation received within two months of the request being issued pension payments are suspended pending further investigation and will only be reinstated, with backdated payment made, once confirmation of full time education continuing has been provided.

The National Fraud Initiative (NFI) is a counter fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the United Kingdom as a whole. It is essentially a data matching exercise that uses computerised techniques to compare information about individuals held by different public bodies on different financial systems that might suggest the existence of fraud or error. Scottish Borders Council Pension Fund participates fully in the NFI exercise and does so in conjunction with the Internal Audit team at Scottish Borders Council, who are the conduit between the Fund and NFI, with any records requiring investigation being fed back to them in the first instance before these are then investigated by Fund Officers.

On a monthly basis officers carry out a variance check between the amounts paid in the current month when compared to the preceding month and the reason for the variance noted on the check file. This is then sample checked by a senior officer who signs off. This is an additional check to those carried out to ensure all records created on the payroll system and values being processed are scrutinised prior to payroll being processed on a monthly basis. Additionally, any payments of lump sum, for example, that are made through the Accounts Payable team must be signed off by another officer.

11. Disputes

There are external bodies who assist with pension problems should resolution not be achieved either through engagement with the Pension Fund in the first instance or through the Internal Disputes Resolution Procedure (IDRP).

Money Helper, provided by the Money & Pensions Service, is available at any time to assist members and beneficiaries of the scheme in connection with any pension query they may have or any difficulty which they are unable to resolve with the scheme administrators. Money Helper can be contacted at: -

Money and Pensions Service
120 Holborn
London
EC1N 2TD

Call on 0800 011 3797 between 9am and 5pm Monday to Friday

www.moneyhelper.org.uk

Web chat between 9am and 6pm Monday to Friday

Web forms aim to provide a response within five working days

The Pensions Ombudsman is available in cases where a complaint or dispute cannot be resolved through the assistance of TPAS. An application can be made, within three years of the event, to the Pensions Ombudsman for adjudication. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the scheme or matters of fact or law and their decision is final and binding (unless the case is taken to the appropriate Court on a point of law). Matters where legal proceedings have already started cannot be investigated. The Pensions Ombudsman can be contacted at:

The Pensions Ombudsman
10 South Colonnade
Canary Wharf
E14 4PU

Call on 0800 917 4487 between 10am and 2pm Monday to Friday

www.pensions-ombudsman.org.uk

enquiries@pensions-ombudsman.org.uk

APPENDIX A

Statement of Income and Expenditure

Resource ID -	Address -
Member Name -	

HOUSEHOLD INCOME	£	EXPENDITURE	£
Earnings – Member		Rent (net of Housing Benefit)	
Earnings – Partner		Mortgage	
State Pension – Member		Food	
State Pension – Partner		Telephone/Mobile	
Pension Credit		Gas	
Working Tax Credit		Electricity	
Child Tax Credit		Other Fuel	
Income Support		Clothing	
Jobseekers Allowance		Car (insurance/road tax/mot)	
Incapacity Benefit		Petrol/Diesel	
Disability Living Allowance		TV/Other Rental/Sky	
Child Benefit		Loans/HP	
Carers Allowance		Cleaning Materials	
Other benefits (list)		Laundry	
		Cigarettes	
		Catalogues	
Private Pension		School Meals	
Child Support		Insurances	
Maintenance		Other Outgoings	
Other income (list)		Fines	
		Pet Costs	
Total Income (A)		Total Expenditure (B)	
		Surplus Income (A – B)	

I agree that the above is a true and accurate record of my present circumstances and will be used to determine a repayment plan in relation to the overpayment of pension that occurred.

Signed

Print

Dated

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2022 1.0	Creation of Overpayment Policy	29 August 2022	Ian Angus
2022 1.1	Amendments following feedback from Anthea Green, Kirsty Robb and Suzy Douglas	16 September 2022	Ian Angus

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

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

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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
-

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Scottish Borders Council Pension Fund: Proposed roles and responsibilities to manage climate-related risks & opportunities

Introduction

This document has been prepared on behalf of Scottish Borders Council (“the Council”) as administering authority of the Scottish Borders Council Pension Fund (“the Fund”) by its Investment Consultant, Isio. The purpose of the document is to supplement and expand upon the policies set out by the Statement of Investment Principles (“SIP”), Responsible Investment Policy, Fund Strategy Statement and the wider Corporate Governance & Corporate Social Responsibility position with a detailed proposal for the roles and responsibilities for managing climate-related risks and opportunities. The Officers of the Fund may wish to exercise judgement on which responsibilities are carried out until the Department for Levelling Up, Housing and Communities (‘DLUHC’) releases further guidance on the issue. Once the Committee have agreed the relevant roles and responsibilities these can be integrated into relevant policy documents.

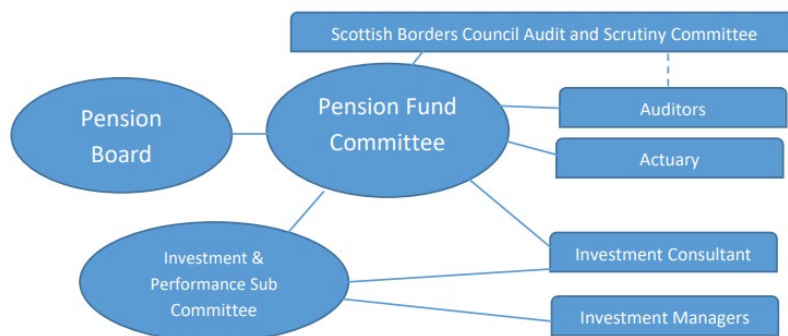
Overall responsibility

The Pensions Committee (“the Committee”) has the ultimate responsibility for ensuring Fund-level climate related risks and opportunities are well governed. This Climate Governance Policy documents the governance processes the Committee has agreed to ensure that it has oversight of the climate-related risks and opportunities that are relevant to the Fund.

As noted within the Fund’s Responsible Investment Policy, the Fund recognises that climate change risk poses significant investment risks which could become incrementally more severe over time.

Roles and responsibilities

The Scottish Borders Council Pension Fund overall governance structure is shown in the chart below:





Scottish Borders Council

The Council, in its capacity as administering authority, has delegated strategic responsibility for administration of the Pension Fund to the Pensions Committee. The Council governs the actions of the Pensions Committee and its Officers.

Pensions Board ("the Board")

The Pensions Board has a role to assist the Council and the Committee in securing compliance with legislation relating to the governance and administration of the Fund. This translates into a scrutiny role of the Committee and the decisions they take.

Pensions Committee ("the Committee")

As noted above, the Council has delegated strategic responsibility for the administration of the Pension Fund to the Pensions Committee and its Officers, including the general ongoing management of its climate-related responsibilities. The Committee is responsible for the assessment of climate impact on assets, funding, and the members' financial security. The Committee, working with the Pensions Board and the Investment Consultant (see further detail below), provides oversight and manages ESG related risks to help the Fund to execute its strategy and enhance long-term, sustainable financial stability. The Committee will ensure that sufficient time is allocated to consider and discuss the Fund's approach to responsible investment and climate change with the Pension Board and its advisers.

The Committee's responsibilities include, but are not limited to, the following:

- Setting and implementing a climate governance policy;
- Receiving regular training on climate related risks and opportunities to ensure it has the level of understanding required to meet statutory and fiduciary obligations;
- Incorporating climate-related considerations into the Fund's Responsible Investment policy (including investment beliefs), ongoing risk management (including ESG and climate items in the risk register), and monitoring;
- Incorporating climate-related considerations into strategic decisions relating to the Fund's investments and funding arrangements;
- Factoring in climate-related risk management capabilities into the selection, review and monitoring of investment managers. This includes ensuring that the Fund's investment managers are managing the climate-related risks and opportunities associated with the Fund's investments;
- Identifying climate-related risks and opportunities for the Fund and setting and monitoring metrics to conduct assessment and management;
- Ensuring that the external advisers have clearly defined responsibilities in respect of climate risk, including documenting the extent to which the advisers' responsibilities are included in any agreements, such as the Investment Consultant's strategic objectives and service agreements;

- Assessing how the external advisers have performed against their climate responsibilities, and flagging any issues identified.

The Committee will, on at least a quarterly basis:

- Receive relevant climate-related updates from the Officers, where available, potentially covering the investment managers' climate capabilities, progress on various climate workstreams and any relevant market or regulatory updates.
- Receiving updates on the Fund's investments from the Fund's Investment Managers, including data on ESG metrics and progress against any targets set in relation to these metrics;

The Committee will, on at least an annual basis:

- Review its Climate Governance Policy and Responsible Investment Policy;
- Review ESG and climate specific related sections of the Fund's risk register;
- Oversee delivery of TCFD reporting;
- Communicate clearly with members on how climate-related risks and opportunities are being managed.

The Committee will, on at least a triennial basis:

- Undertaking analysis of various climate scenarios, and for the two years following the latest scenario analysis, consider whether there is sufficient reason to carry out further analysis;

Investment Consultant

The Investment Consultant's responsibilities include, but are not limited to, the following:

- Advising on the inclusion of climate considerations in the Fund's governance arrangements, investment strategy, risk management and monitoring, working with the Committee and its other advisers, as appropriate;
- Advising how climate-related risks and opportunities might affect the Fund's exposure to different asset classes over the short, medium and long term, and the implications for the Fund's investment strategy;
- Assisting the Committee in the selection and monitoring of appropriate climate-related metrics and targets in relation to the Fund's investments, including engaging with the Fund's investment managers regarding the provision of the agreed metrics;
- Providing training and relevant updates to the Board and Committee on relevant climate-related matters.

The Investment Consultant will, on at least an annual basis:

- Assist with the selection, collection and presentation of metrics and targets;
- Assist with the preparation of the Fund's annual TCFD report;
- Provide additional ESG monitoring and projects, as required, on an ad hoc basis.

The Investment Consultant will, on at least a triennial basis:

- Assist with climate scenario analysis to determine the potential impact on the Fund's assets and liabilities under various climate change scenarios.



Fund Actuary

The Actuary's responsibilities include, but are not limited to, the following:

- Assessing climate-related risks and opportunities in relation to the Fund's funding position over the short, medium and long term and the implications for the Fund's funding and long-term objective.

Legal Adviser

The Legal Adviser's responsibilities include, but are not limited to, the following:

- Providing training to the Committee on climate-related legal matters, including, ensuring the Committee is aware of its climate-related statutory and fiduciary obligations;
- Where requested, assisting in the documentation of the arrangements with the Committee's third parties with respect to climate-related matters;
- Assist with the preparation of the Fund's annual TCFD report.

The Legal Adviser will, on at least an annual basis:

- Provide a legal review of the Fund's annual TCFD report.

Investment Managers

The Investment Managers' responsibilities include, but are not limited to, the following:

- Identifying, assessing and managing climate-related risks and opportunities in relation to the Fund's investments;
- Exercising voting rights and engaging with portfolio companies in relation to climate-related risks and opportunities, on behalf of and in the best interests of the Fund's members;
- Providing the agreed climate-related metrics to the Fund's Investment Consultant in relation to the Fund's investments and focus on increasing the quality and availability of these metrics.

Monitoring and reviewing the delegated roles and responsibilities

The Committee should view the development of roles and responsibilities as an ongoing process, as approaches to understanding and integrating climate-related risks and opportunities continue to evolve over time. When reviewing the Responsible Investment Policy, the Committee should consider whether the current delegations remain appropriate.



Appendix

This document has been prepared for the sole benefit of the Scottish Borders Council as administering authority of the Scottish Borders Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group Limited/Isio Services Limited Services Contract. It should not be relied upon by any other person.

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Review of Governance of the Scottish Borders Council Pension Fund

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Executive Summary

This review of governance of the Scottish Borders Council Pension Fund ('the Fund') was undertaken during October and November of 2022 and is based on a desk-top review of pension fund documentation, observations of meetings and conversations with individuals involved in the Fund's governance. It was prompted by increased scrutiny of LGPS funds and increasing standards of governance introduced by legislation and The Pensions Regulator.

Key Findings

The Fund has a number of good practices in place, including:

The duties of Pension Fund Committee are solely for the pension fund and membership of the Committee has been relatively stable. The Pension Board meets separately, directly after Committee meeting, to consider whether the Board wishes to raise any concerns with the Committee.

A significant amount of time is spent by the Committee and Sub-Committee on pension matters in comparison with other LGPS funds. For a relatively small fund, the investment arrangements are very complex. The Fund has a rigorous approach to training for members of the Committee and Board. Officers are proactive in forecasting agendas for Committee meetings and the meeting agendas include a wide range of pension matters.

The Fund's annual report is comprehensive and the risk register is reviewed quarterly by the Committee and Board. Comprehensive policies and strategies are in place for most functions of the pension fund, including a business plan and budget.

Key Recommendations

A summary of the key recommendations is provided below:

Governance Structure and Decisions Making

- The Fund should ensure that the roles of the Committee and Board members are distinct and clearly understood by all members and officers including potential conflicts of interest.
- The Pension Board's constitution should be reviewed and updated.
- The remit of the Pensions Committee should include the assessment of the effectiveness of the Fund's systems of control including the agreeing internal audit plans and reviewing the outcomes of internal audits.
- The Fund should review the make-up and business of the Investment Sub-Committee.
- The Fund's training approach could be more specific to the needs of members including ensuring awareness of key documentation, assessing knowledge and extending the Training Policy to senior officers.
- Resource requirements of the Pension Fund should be assessed to ensure pension functions are efficient and effective. The Fund should ensure there are appropriate procedure manuals, including timetabling, for key tasks to reduce the impact of changes of staffing.
- The Fund should consider the appointment of a single officer who has line management responsibility for all pension functions and spends the majority of their time on pension matters.

Objectives and Planning

- The Fund should put in place new policies for the management of conflicts of interest and the reporting of breaches.
- The Pensions Administration Strategy should be expanded to include standards for the internal services provided to pension fund members and ensure performance is monitored.
- A data improvement plan should be developed.

- The Fund should regularly review the risks and resources of maintaining two systems for pensioner payroll.

Outcomes and Oversight

- Benchmarking of administration and investment should be undertaken on a regular basis, including cost and performance, with results reported to Committee.
- Consolidating of the large number of investment managers/mandates to a smaller number of asset classes could aid Committee's understanding of the key issues.

Risk Management and Audit

- The Fund should document how it complies with The Pensions Regulator's Code(s) and include the risk of non-compliance in the risk register.
- The Fund's internal audit should be expanded to cover the Fund's specific risks. The Fund should also review the resource needed to provide assurance on the key risks.

This paper should be shared with the Pension Fund Committee and the Pensions Board for consideration of the findings and recommendations. If the recommendations are agreed, they should be prioritised and a plan developed for their implementation. Progress on the implementation of the plan should be reported to the Committee and Board.

Clare Scott

Independent Adviser

Introduction

This report is addressed to the Pension Fund Committee of the Scottish Borders Council ('the Council') as Administering Authority of the Scottish Borders Council Pension Fund ('the Fund'). The Fund is one of the smallest of the 11 Local Government Pension Funds in Scotland.

The Public Sector Pensions Act 2013 introduced new governance standards for public sector pension schemes including the requirement for a Pension Board to be established for each LGPS administering Authority with effect from 2015. At the same time, pensions administration and governance of public sector pensions were added to The Pensions Regulator's ('the Regulator') responsibilities.

This review of the Fund's governance was prompted by increased scrutiny of LGPS funds and increasing standards of governance introduced by legislation and The Pensions Regulator. Its purpose is to consider the Fund's governance relative to these standards and also relative to best practice adopted by other LGPS funds.

The Pensions Regulator

The Regulator introduced a new code of practice specifically for public sector pension schemes (code of practice 14). Codes of practice are not statements of the law and there is no penalty for failing to comply with them. However, when determining whether legal requirements have been met, a court or tribunal must take any relevant provisions of a code of practice into account. Therefore, it is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the code of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met.

Code of Practice 14 is particularly directed at administering authorities (also called scheme managers) and the members of pension boards. As the code covers all public sector schemes, there is no specific reference to councils (or the council committee) as administering authorities for the LGPS. In the code, the Regulator generally uses 'must' where there is a legal requirement and 'should' where it is a standard expected by the regulator. The contents of Code of Practice 14 are as follows:

- Knowledge and Understanding.
- Conflicts of Interest and Representation (identifying, managing and monitoring conflicts of interest).
- Publishing Information about the Scheme.
- Managing Risks.
- Administration.
 - o Scheme record-keeping
 - o Maintaining contributions
 - o information to members
 - o Resolving issues
 - o Reporting breaches of the law

The Regulator also requires each Fund to provide an annual return and to inform them of material breaches of the law. It has also undertaken governance surveys and in 2019 published its findings following engagement with 10 LGPS funds. These reports help to understand the Regulator's expectations of the LGPS administering authorities.

Pension Boards

The Public Sector Pensions Act requires the pension board to .. “assist the scheme manager in relation to

- (a)securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme ...;
- (b)securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;..”

The legislation of each specific public sector scheme could extend the pension board’s remit and the Scottish LGPS regulations require the pension board to meet alongside the main Committee and explicitly permit them to challenge decisions of the administering authority. It is notable that this is quite different to the pension boards in the English and Welsh LGPS, where the remit is restricted to (a) and (b) of the above clause in the Act. In England and Wales, typically the pension boards have separate meetings (from the pension committee), with different agendas. Governance oversight is typically done via overseeing committee papers and potentially, observing committee meetings. Pension boards in England often undertake more detailed oversight of the pensions administration services.

The creation of pension boards formally introduced a role for member and employers in the LGPS which, in many funds, was lacking. However, in practice pension boards have generally struggled to fit in with LGPS governance structures which were (are) well established. The pension board adds additional scrutiny, but also the formal involvement of members and employers but the question of how the pension board can ‘assist’ the scheme manager remains outstanding for most funds.

Forthcoming Changes – The Pensions Regulator Code of Practice

In the spring of 2021, The Pensions Regulator consulted on a proposal to consolidate 10 of its codes of practice (including code of practice 14 for public sector schemes) into one single code. The new code was initially planned to be effective from late 2021 but it has not yet been published. A revised timescale is not certain although it is expected in the coming months. The draft code is extensive and included 51 sections covering:

- Governance
- Funding & Investment
- Pensions Administration
- Communication and Disclosure
- Reporting to The Pensions Regulator.

It is expected to apply to both private and public sector schemes, although 15 of the 51 sections (mainly relating to funding and communications) are not expected to apply to LGPS funds. Nevertheless, the draft new single code will require LGPS funds to review their approaches and the requirements may be quite onerous.

Some public sector funds appealed for a specific code to be retained and sections of the LGPS community also asked for a specific code for LGPS funds. However, it appears these appeals have been rejected by the Regulator. Responses to the consultation particularly relevant to LGPS funds included the following themes:

- The new code uses the term ‘governing body’ which for public sector schemes is defined as ‘the scheme manager and the pension board’. Greater clarity has been requested on this

matter given the different roles of the scheme manager and the pension board, and potential for unnecessary duplication.

- Whether parts of the new code, particularly relating to governance and investment, are relevant to the LGPS. The Regulator's role for LGPS funds is restricted to governance and pensions administration and specifically exclude funding and investment. Also parts of the new code may clash with other LGPS and local government legislation, for example in relation to appointments to the pensions committees and the conduct of meetings.

Despite the uncertainty on some of the detail in the new draft code, the Regulator's requirements have been taken into account in this review of governance of the Fund and implementation of the recommendations will help to comply both the current Code of Practice 14, as well as the new single code (if the final version is broadly in line with the draft version).

Forthcoming Changes – Good Governance Review

A review of governance has been undertaken by the LGPS Scheme Advisory Board in England and Wales (the 'Good Governance review'). Its recommendations have been reported to the department of the UK government which is responsible for the LGPS in England and Wales. It is understood that the recommendations have been accepted and the recommendations will be taken forward in legislation and/or guidance.

A summary of the recommendations is as follows:

- New statutory governance guidance and a revised annual Governance Compliance Statement
- The creation of an LGPS Senior Officer. (More information is provided later in this report).
- Compulsory policies/strategies on:
 - o Conflicts of Interest (specifically for the Fund rather than relying on the Council's approach).
 - o Training.
 - o Representation of members and non-Administering Authority employers on committee(s).
 - o Pensions Administration.
- Knowledge and understanding requirement (including officers and committees).
- Section 151 (the equivalent of the Section 95 in Scotland) to have specific LGPS training/Continuous Professional Development. CIPFA to provide appropriate guidance and training.
- Documentation of key roles and responsibilities, in line with scheme of delegations, job descriptions.
- Common performance indicators for all funds and compulsory reporting of performance.

LGPS legislation introduced in England and Wales is often replicated in Scotland. It is unclear whether the Scottish LGPS Scheme Advisory Board are aware of the Good Governance project or whether they, or the Scottish Minister responsible for the LGPS, will take forward any of the recommendations. Nevertheless, most of the conclusions of the Good Governance review are relevant to all LGPS funds, including those in Scotland, and these have been considered in forming the recommendations in this report.

Links to The Pensions Regulator reports and the Good Governance review are provided in Appendix 2.

The Process for the Review of Governance

The review looked at the following areas:

- Governance structure and decision making.
- Pension fund objectives and planning.
- Outcomes and oversight.
- Risk management.

Research was undertaken by:

- A desk-top review of pension fund documentation.
- Observation of meetings of the Committee and Pension Board in September 2022 and the Investment Sub-Committee in October 2022.
- Conversations with various individuals involved in the Fund's governance.

The documents reviewed included:

- The Council's Scheme of Administration which includes the remits of the Pension Fund Committee and the Investment Sub-Committee.
- The Council's Scheme of Delegation.
- The Constitution of the Pension Board.
- Papers for meetings of the Pension Fund Committee and the Investment Sub-Committee over the last 2 years including risk registers, internal audit plans and opinions, and various policies and strategies.
- The pension fund's annual report for the past 2 years.
- Documentation on the Committee's and Board's training.
- The governance related sections of the pension fund's website.

Clarity was sought from the officers who lead the service delivery for the pension fund, the (outgoing) Pension and Investment Manager and the HR Shared Services Manager. Conversations were also held with:

- The convener of the Pension Fund Committee.
- The current chair of the Pension Board (an employer representative).
- The previous chair of the Pension Board (a member representative).
- The Acting Chief Executive.
- The Acting Director of Finance and Corporate Governance (the Section 95 officer).
- The Director of People, Performance and Change.
- Advisers to the Fund (Isio and Hymans Robertson).

Findings and Recommendations

This section provides the findings of the review and the recommendations. The recommendations **highlighted in bold** are considered to be the most important.

Governance Structure and Decision Making

Committee Structure

The Council's Scheme of Administration sets out how it discharges the functions needed to run the pension fund.

The duties of the Council in relation to pension matters for its employees (i.e. employer duties) are the responsibility of the Executive Committee of Council. This is important in that it ensures that the duties of Pension Fund Committee are solely for the pension fund.

The Board meets separately, directly after Committee meeting, to explicitly address whether the Board wishes to raise any concerns or disagreements with the Committee.

Investment matters are complex and the Fund's investment structure is quite complex, especially for a relatively small pension LGPS fund. The Investment Sub-Committee meetings ensure extra time for investment matters which are the responsibility of the Committee.

The Fund should review the Scheme of Administration and address the following matters:

- The Committee's remit is to consider 'all matters' relating to the pension fund. The Council should consider articulating its expectations of the Committee in more detail to provide a framework for the agendas to ensure it considered key aspects of running the Fund. For example to ensure the fund is managed in line with legislation, guidance and codes of practice.
- It could also set out the Council's expectation that members of the Committee will be required to comply with the Fund's training policy.
- The remit of the Council's Audit & Risk Committee's includes "Assess the adequacy and effectiveness of the Pension Fund's systems of internal financial control". **This aspect should (also) be included in the remit for the Pension Fund Committee**, including receiving relevant internal audit reports. (See Risk and Audit section later in this report).
- **Review the make-up and business of the Investment Sub-Committee.** The Investment Sub-Committee makes recommendations to the Pensions Committee. As the members of the Sub-Committee are all members of the main Committee, in effect the same (elected) members are meeting approximately 7 times per year, hence there is duplication of investment matters between the two bodies. Efficiencies may be gained if the Sub-Committee is removed to avoid matters being considered twice by the same members. Alternatively, the business of the Investment Sub-Committee could be merged into the Pensions Committee, or membership of the Investment Sub-Committee could be reduced, and/or some investment implementation decisions could be delegated to the Sub-Committee. (Note: investment strategy (the allocations to different asset classes) should remain with the main Committee as this is the key determinant of investment risk).
- **Board members should not be members of the Investment Sub-Committee.** All Board members should have access to all Committee meetings to oversee governance. However, they have a legislative right to challenge decisions made by Committee subject to certain criteria so it is important that they should not be integral to the decisions.
- **The Fund's Training Policy requires minimum attendance at two Committee meetings. It does not set a minimum attendance at the Investment Sub-Committee. The Fund should**

review this minimum attendance requirement given the complexity of pensions issues and the importance of regular attendance.

- Consider having member and/or employer nominated members on Committee with voting rights. This has a number of potential advantages:
 - o Provides different perspectives
 - o Helps to address the potential perception that the Fund is managed in the interests of the Council.
 - o Continuity at the time of local government election.

Pensions Board

When the LGPS regulations first required the establishment of Pension Boards in 2015, a template constitution was provided by the Scheme Advisory Board. The current constitution for the Pension Board of the Fund has been in place since 2015 and it broadly mirrors the template provided by the Scottish LGPS Scheme Advisory Board.

Recommendations:

- **Review and update the Constitution:**
 - o The Board should be required to produce an annual report on its activities which should be included in the Fund's Annual report. This is common practice for LGPS pension boards.
 - o During the appointment process and annually thereafter, members should be required to declare interests. A register of interests accessible should be made available on the website.
 - o How and when the members of Board who attend the Investment Sub-Committee are selected.
 - o More detailed comments on the current constitution have been provided to officers separately.
- **The Fund should ensure that the different roles of the Committee and Board are clearly understood by all members and officers including potential conflicts of interest.** There should be regular training on these issues to ensure interests are understood and conflicts can be managed if they arise.
- Elected member(s) from the Council are members of the Board which could arise in specific potential conflicts of interests, for example if the Board is considering challenging a decision made by the Committee. The Fund should ensure that it is comfortable that such conflicts can be managed.
- The Board may wish to consider meeting before each Committee meeting to discuss any potential areas which they wish to scrutinise/challenge (or least having the option to do so). This would give the Board members who attend the Investment Sub-Committee an opportunity to provide an update on investment matters.
- Papers, minutes of meetings and the Council's website should clearly distinguish between members of the Committee and Board.
- The Fund may also wish to consider asking the Scheme Advisory Board to review the template constitution for pension boards, taking into account the way the workings of pensions boards across Scotland have evolved and learning from best practice.

Training

The Fund has a rigorous approach to training for members of the Committee and Board.

- A Training Policy is in place (this is not (yet) a legal requirement).
- Annual training needs analysis determines a training plan which is agreed by Committee. Investment training is regularly provided prior to the Investment Sub-Committee.
- Members are required to complete The Pensions Regulator's toolkit within 6 months of joining the Committee/Board.
- There is regular reporting of compliance with the Training Policy which demonstrates good compliance.

Recommendations are as follows:

- **The Fund's documentation refers to an induction pack and list of key documents with which members are expected to be familiar. However, not all members are familiar with these documents. The profile of these documents should be raised and members required to confirm that they are familiar with them on a regular (annual) basis.**
- **The Fund should consider assess training needs based on knowledge (as opposed to members' perception of knowledge).**
- Training plans should address needs of all individuals, for example bespoke training plans may be needed when training needs vary significantly or different plans for Committee and Board.
- **Ensure the training plans address the needs of members.** More targeted training on the specific issues facing the Fund and the needs of individuals could be more effective, reducing the reliance on externally provided seminars. (Observing meetings of other LGPS pension boards could be relevant training for Board members).
- The minimum training is set at 2 training sessions per year, irrespective of duration, subject or knowledge gained. More specific minimum requirements should be considered.
- Regularly review the effectiveness of training sessions. This could be done by assessing the knowledge gained.
- **Extend the Training Policy to senior officers including deputy for the Section 95 officer.**

Resourcing and Delegations

The Council's Scheme of Delegation determines who is responsible for delivery of the pension function(s). It is currently as follows:

- Director of Finance & Corporate Governance (the Section 95 officer) undertakes the function of 'Pensions Investment'. On a day-to-day basis, the Pensions Investment functions are undertaken by the Pension and Investment Manager with administration support. In the absence of the Director of Finance & Corporate Governance, the Financial Services Manager undertakes these delegated functions.
- Director of People, Performance and Change undertakes the function of 'Pensions' (which is understood to be essentially pensions administration). On a day-to-day basis, this is undertaken by the HR Shared Services Manager supported by 3.8 (FTE) pensions staff (i.e. approximately 4.0 FTE in total).

At the time of writing, Director of Finance & Corporate Governance and Financial Services Manager are acting-up on a temporary basis to the roles of Chief Executive and Director of Finance & Corporate Governance respectively. Further, the role of the Pensions and Investment Manager is vacant.

Recommendations:

- **Resource requirements of the Pension Fund should be assessed to ensure pension functions are efficient and effective.** It is recognised that this issue has been raised previously by external audit. However, this should be done in the light of increasing scrutiny of the Fund, increasing expectations of The Pensions Regulator, increasing demands on service and the other recommendations within this report. The complex investment structure of the Fund also adds to the resource requirements. Resilience of resource should also be considered, including succession planning. Options to work with other LGPS funds could be considered to leverage off specialist and technical knowledge.
- **The Fund should ensure there are appropriate procedure manuals, including timetabling, for key tasks to reduce the impact of changes of staffing.**
- **The Fund should consider the appointment of a single officer who has line management responsibility for all the pension functions and spends the majority of their time on pension matters.** This is a recommendation of the English LGPS Good Governance review. They called the role the 'LGPS Senior Officer'. It is envisaged such a role would have primary responsibility for delivering pension service, provide independence when there are conflicts of interest between the Fund and the Council, sign the Annual Governance Compliance Statement (co-signed with the Section 95 officer if different) and confirm that the approved budget is sufficient to deliver the pension function to a required standard. They could also deputise in the absence of the Section 95 officer. More detail on the Good Governance's recommendations on the LGPS Senior Officer is provided in Appendix 1.
- The Fund could consider the appointment of an independent adviser to provide support for officers, Committee and Board, helping to scrutinise advice from investment consultants and other advisers.

Objectives and planning

Comprehensive policies and strategies are in place for most functions of the pension fund, including a comprehensive business plan and budget which are agreed annually by the Pension Fund Committee. Officers are proactive in forecasting agendas for Committee meetings and the agenda plan covers a wide range of pension matters.

Recommendations:

- **The Fund should put in place a conflicts of interest policy, to evidence that perceived and actual conflicts are being identified, monitored and managed.** The policy should be specific for pension fund, rather than relying on the requirements of the Council. This is a recommendation of the Good Governance review. Examples of potential conflicts of interest are:
 - o Contribution setting for the Council.
 - o Cross charging for services or shared resourcing between the Fund and the Council.
 - o Local investment decision making.
- The Fund should also put in place a hospitality/gifts register covering members of the Committee and Board, as well as officers.
- **The Fund should put in place a policy and procedure for the reporting of breaches to include responsibilities, internal reporting and consideration of reporting to The Pensions Regulator.**
- The budget and business plan should be considered by Committee at the same time, ensuring the implications of the business plan are included in the budget.
- **The performance indicators included in the Pensions Administration Strategy are limited to the targets for employers and for pension transfers. The Fund currently has no service standards for the internal administration processes, for example retirements/deaths/new starts and there is no monitoring of these services. The Strategy should be expanded to include standards for the internal services provided to members and ensure appropriate monitoring is in place to monitor performance against these.**
- The Fund should regularly survey members and employers to gain feedback on the service, for example after specific interactions (new joiners, retirements, deaths, employer events) or more generally on a periodic basis.
- The business plan and budget could include more extensive performance measures for example in areas such as communications, member self-service (registration and regular logins), employer data processing, customer satisfaction and data quality.
- **A data improvement plan should be developed to address any gaps in The Pensions Regulator data measurements, but also to deal with more general data issues, for example required for dashboard implementation.**
- Efforts have been made recently to expand the use of the pensions administration system including online access for members, document management and data analysis tools. Further automation should be considered including the use of workflow and electronic transfer of data from employers, to further increase efficiency and reduce risk.
- **Pension payroll is paid from the Council's financial system, as opposed to the pension administration system. Hence records for pensioner members are being maintained on two systems. The Fund should regularly review the risks and resources of this arrangement and compare with alternative options.**

Outcomes and oversight

The Fund's annual report is a comprehensive document and includes performance across key aspects of the Fund's service.

The Fund also reviews the quality of the membership records as required by The Pensions Regulator, both Common and Conditional Data. The implementation of a new module of the pensions administration system will help with the analysis and production of this reporting.

The Fund has a specific website which is easy to navigate.

A comparison of the Fund's investment performance to March 2020 with other Scottish funds was considered by the Investment Sub-Committee in 2021. The Fund also can compare its administration costs with other Scottish funds and has also participated in a more comprehensive investment benchmarking service.

Recommendations:

- **Participate in benchmarking of both administration and investment performance on a regular basis. Benchmarking should cover both cost and service performance and results should be reported to Committee. These comparisons should help to inform future service planning.**
- Every 3 years, the Committee should consider the report undertaken by the Government Actuaries Department for the Scottish Government (Section 13 report) which analyses the funding positions of the Scottish LGPS funds.
- Performance against the Pensions Administration Strategy is currently reported to Committee on an annual basis. Performance should be monitored by Committee more frequently (at least every 6 months, if not quarterly) to be better informed of potential pressures on the service and ensure action is taken if necessary. (As noted earlier, the service standards should also be extended to the services for members.)
- The Fund should regularly monitor the performance of the external provider of the Additional Voluntary Contributions (AVCs) facility, both investment and administration performance. The last review done in November 2018. The Fund should communicate to members with AVC arrangements to remind them of the importance of monitoring their AVC investment choices.
- A procedure should be developed to ensure the content of the website is reviewed and updated on a timely basis.
- The Fund should consider obtaining an updated on the funding position between the formal actuarial valuations, say every year. This would help to put the short-term investment performance into perspective and maintain members' awareness of funding.

Investment Oversight

The Fund's investment arrangements are extremely complex, especially for a relatively small pension fund. There are 17 mandates listed in the investment performance report provided by Isio. In addition, there are 18 mandates in the infrastructure/'other real assets' mandate advised by the Lothian Pension Fund.

A significant amount of time is spent by the Committee and Sub-Committee on investment matters. Committee papers include strategy implementation and the Investment Sub-Committee spends most of its time on investment manager oversight with (typically) annual reviews of managers. Investment reporting is detailed and thorough.

Recommendations:

- **Ensure the agenda for Investment Sub-Committee aligns with its remit.** There are some aspects of the Sub-Committee's remit which have not been addressed recently (Statement of Investment Principles, overseeing the custodian and consideration of the risk register).
- **There has been a significant drive in the investment industry to achieve greater transparency of investment costs. The ISC could review the investments costs on a periodic basis (e.g. annual) which would increase awareness of asset classes and investment managers and hence inform future decisions.**
- There could be ways to consolidate/simplify papers to reduce duplication. See also the previous comments on the review of the Investment Sub-Committee.
- Given the complex investment arrangements, the Fund could consider delegation of some (less significant) manager decisions/oversight to officers to allow more time for Committee to consider the most significant holdings (subject to there being sufficient officer resource and expertise).
- The monitoring of the infrastructure/'other real assets' mandate advised by the Lothian Pension Fund is considered by Committee, not the Investment Sub-Committee. In future, comparison of the internal infrastructure mandate with the newly appointed infrastructure IFM will be important. The approach to monitoring should therefore be reviewed to ensure consistency.
- The Investment Sub-Committee have agreed a framework to assess the Fund's investment adviser. The final assessment of the provider should be agreed by the Committee.

Recommendations on investment reports:

- **Consolidating of the large number of investment managers/mandates to a smaller number of asset classes for the purpose of setting strategy and reporting would simplify reports and aid understanding of the key issues.**
- The attribution (i.e. an explanation of the main drivers) of investment performance could aid understanding of the key issues.
- The reports on specific investment managers are detailed but they tend to focus on the most recent quarter's performance and activity. The Committee typically meets with managers annually, therefore the reports could focus on such longer-term periods. Performance for periods of more than 3 years would also help.
- A single list of managers/mandates might be a helpful reference document given the complexity of the Fund's investment structure.

Risk Management and Audit

The fund has a comprehensive risk register which is reviewed quarterly by the Committee and Board. The covering report highlights any changes in the risk scores and provides updates on actions.

External auditor plans and audit findings are also reported to the Committee.

The plan for internal audit is submitted to Committee for comment, prior to approved at the Council's Audit & Risk Committee. The coverage of pensions matters is included in the internal audit of the Council's financial controls and governance. The internal audit resource allocated to the Fund is 5 days per year and the audit plan in recent years has been virtually identical. The internal audit opinion is considered by the Committee on an annual basis.

Recommendations:

Risk

- (If not already in place) the Fund should develop clear definitions of impact and likelihood used to assess risks and include them in Committee reports. These could help Committee and Board to scrutiny of the risk register.
- The Fund could consider the level of appetite for risk and set target risk scores in order to ensure focussed action.
- **The Fund should include the risk of not complying with The Pensions Regulator's Code(s) of Practice in the register.**
- **The Fund should document how it complies with each section of The Pensions Regulator's Code(s). This should help to guide the business plan and ensure ongoing improvements. Compliance should be overseen by the Committee and Board.**

Audit

- **The Fund's internal audit should have broader coverage of the Fund's specific risks. The Fund should also review the resource needed to provide assurance on the key risks. Pensions audit experience should be sought if necessary.**
- **The results of internal audits are currently reported to the Audit & Scrutiny Committee of the Council. The outcomes of internal audits relating to the pension functions should be reported to the Pension Fund Committee to make them aware of the risks relating to the pension fund.**

Conclusions and Next Steps

This paper should be shared with the Pension Fund Committee and the Pensions Board for consideration of the findings and recommendations.

If the recommendations are agreed, they should be prioritised and a plan developed for implementation. Progress on the implementation of the plan should be reported to the Committee and Board.

Clare Scott

Independent Adviser

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Appendix 1 – LGPS Senior Officer (extracts from English LGPS Scheme Advisory Board report – February 2021)

“Organisational Principles

In appointing a LGPS senior officer, administering authorities should have consideration of the following organisational principles.

- **Representing the fund at a senior level.** The Senior Officer should be of sufficient seniority to ensure that pension issues can be brought the attention of the senior leadership team as necessary. This also ensures that the Senior Officer is close enough to the strategic direction of the host organisation (council) and able to influence decisions where they impact on the management of the fund. It is unlikely that the Senior Officer role could be carried out effectively by an individual lower than third tier in the organisation.
- **Capacity.** The role of Senior Officer is demanding and those undertaking it should be able to give it the necessary attention. While the Senior Officer might have some other responsibilities within the organisation, these should not be of a scale that they impact adversely on the ability to ensure the effective delivery of the LGPS function. When considering capacity, it would be appropriate to consider both the Senior Officer role and the capacity and seniority of their direct reports working in the LGPS.
- **Reporting Lines.** As the individual with responsibility for delivering the LGPS function, it is appropriate that those with key LGPS functions come under a reporting structure which falls under the Senior Officer’s supervision. (From time to time the fund will employ resource and expertise from other areas of the authority, for example project management, IT or legal services. It is not the intention that all that all of these functions should fall under the Senior Officer, however the expectation is that key functions such as investment, administration, employer liaison, communications, fund accounting etc do.)
- **Resourcing.** The senior officer is responsible for the delivery of the LGPS function and as such must be able to ensure that they run an operation that is sufficiently resourced. The intention is that the Senior Officer is responsible for drawing up the fund’s budget and agreeing it with the Pension Committee.”

Appendix 2 - Useful Links

The Pensions Regulator:

- Code of Practice 14 <https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice>
- New Single Code of Practice <https://www.thepensionsregulator.gov.uk/en/document-library/consultations/new-code-of-practice>
- The Pensions Regulator Deep Dive on LGPS funds <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagment-report>

LGSP Scheme Advisory Board for England and Wales – Good Governance Report

- https://lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf

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Section 13 and scheme valuations

The SAB received a presentation from GAD on the section 13 report. Whilst this is still in draft form, the tone was positive. The report will include a standardised report on deficit/surpluses of funds and average employer contributions. The SAB discussion touched on assets held domestically and internationally. In addition, introducing a Scottish “pre-breach” mechanism for the scheme cost-cap was discussed, but it would be helpful to wait until HMT issues its draft directions around the cost cap, which may be in mid-2023.

Annual Allowances

A discrepancy has been identified between the dates of CARE scheme revaluations and the annual tax allowance. The effect of this is that increase in pension accrued in one year is exaggerated in times of rising inflation, and more members may breach the annual tax allowance limit. SAB chairs and secretaries will respond to Scottish Ministers.

Climate reporting

There is a clear move to making climate risk reporting mandatory, in line with private sector pension funds. The SAB agreed to reconvene its working group to examine the current DHULC proposals and what might be appropriate for Scottish Funds.

Good Governance

The SAB considered the outcomes of the Good Governance report produced for the E&W SAB. There appear to be some general good practice points raised in it, but repeating the whole process for Scottish Funds may be unnecessary, as the conclusions give a decent starting point. It was agreed to further consider the recommendations in detail, and how they, or any other points, may be appropriate for Scotland.

Guidance on deferred debt and cessation

Having previously consulted Funds, the SAB examined guidance on the new legislative changes around cessation, including on deferred debt. It felt that this needed slight tailoring for Scotland, but some consistency would be helpful and it should issues advice on this issue. The need for legislative clarity on the Scotland-specific 90-day cessation quotations was highlighted.

Structures changes

The SAB held a working group meeting to identify the next steps in this, bearing in mind the progress in Project Forth between Lothian and Falkirk Funds, and has another working group meeting in December.

Specialist support to the SAB

The potential need for increased specialist support for the SAB was discussed, in areas where substantive research or reports were required. The joint secretaries were tasked with bringing back firm proposals on this.

Further details on our website www.lgpsab.scot.

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