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PENSION FUND COMMITTEE AND PENSION BOARD TUESDAY, 21 MARCH 2023

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA MICROSOFT TEAMS on TUESDAY, 21 MARCH 2023 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,

9 March 2023

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 5 - 10) Minute of Meeting held on 13 December 2022 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Pension Fund Investment and Performance Sub-Committee (Pages 11 - 12) To note the Minute of the Pension Fund Investment and Performance Sub-Committee held on 31 October 2022. (Copy attached.)	2 mins
6.	Statement of Investment Principles 2023 (Pages 13 - 50) Consider report by Acting Chief Financial Officer. (Copy attached).	10 mins
7.	Risk Register Update (Pages 51 - 54) Consider report by Acting Chief Financial Officer. (Copy attached.)	10 mins
8.	Pension Fund Budget Monitoring to 31 December 2022 (Pages 55 - 60) Consider report by Acting Chief Financial Officer. (Copy attached.)	10 mins

9.	Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund (Pages 61 - 68) Consider report by Chief Officer Audit & Risk. (Copy attached.)	10 mins
10.	External Audit Plan 2022/23 (Pages 69 - 86) Consider Annual Audit Plan 2022/23 by Audit Scotland. (Copy attached.)	15 mins
11.	Information Update (Pages 87 - 96) Consider briefing paper by Acting Chief Financial Officer. (Copy attached.)	20 mins
12.	Any Other Items Previously Circulated	
13.	Any Other Items which the Chairman Decides are Urgent	
14.	Items Likely To Be Taken In Private Before proceeding with the private business, the following motion should be approved:- “That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.”	
15.	Minute (Pages 97 - 98) Private Section of Minute of Meeting held on 13 December 2022 to be noted and signed by the Chairman. (Copy attached).	2 mins
16.	Pension Fund Investment and Performance Sub-Committee (Pages 99 - 102) To note the Private section of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 31 October 2022. (Copy attached.)	2 mins
17.	Quarter 4 Investment Performance Report (Pages 103 - 146) Consider report by Isio. (Copy attached).	20 mins
18.	Baillie Gifford Equity Allocation - Performance Analysis (Pages 147 - 162) Consider report by Isio. (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
Tuesday, 13 December 2022 at 10.00am.

Present:- Councillors D. Parker (Chairman), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, W. McAteer, J. Pirone (from paragraph 7), S. Scott, Mr D. Bell, Mr A. Daye (from paragraph 8), Mr M. Drysdale, Ms K. Robb (from paragraph 7), and Ms L. Stephen.

Apologies:- Ms K M Hughes

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 Ross and Mr A Singh (Isio)

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 19 October 2022. Mr Drysdale advised that he had erroneously been listed as an apology in the Minute of the meeting. It was agreed to amend the Minute accordingly.

DECISION

NOTED for signature by the Chairman as amended.

2. **RISK REGISTER UPDATE**

With reference to paragraph 8 of the Minute of the meeting held on 29 June 2022, there had been circulated copies of the report by the Acting Chief Financial Officer which formed part of the risk review requirements and provided the Members of the Pension Fund Committee and Pension Board with a schedule that detailed the updated risks and proposed management actions to mitigate the risks. Identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. A virtual risk workshop 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. Appendix 1 to the report detailed the risks within the approved risk register which had been updated at the end of quarter 2, identified management actions and the progress of these actions to date. Four actions had 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). There were no new risks identified during the review. The Acting Chief Financial Officer, Ms Suzy Douglas, presented the report and highlighted that the report produced by Ms Clare Scott, an independent advisor, had expressed views on matters related to risk management. The Chief Officer – Audit and Risk, Ms Jill Stacey advised that the terms of risk reviews followed the risk management policy which had been introduced in December 2021. It had been agreed then that the approach to risk and risk review would be proportionate to the risk which each entity faced. Risks, as classified on the Red, Amber, Green matrix, were reviewed at different frequencies. Red risks were reviewed on a quarterly basis, amber every 6-months, and green annually. Ms Stacey and the Corporate Risk Officer were working closely with Ms

Douglas and the HR Shared Services Manager to ensure risks were adequately reviewed. In response to a question regarding details on specific action taken as part of risk review and management, Ms Stacey explained that the report was a high level summary which outlined that risk management practises were being applied and the report provided a summary for oversight purposes. The Acting Chief Executive confirmed that a full review of the risk register was carried out on an annual basis and was presented to the Committee, and that a session could be organised which could assess the most strategic and significant risks faced by the Pension Fund. The full Risk Register could be made available to Members.

DECISION

AGREED:-

- (a) to note the management actions progress as contained in Appendix 1 to the report;**
- (b) to note no new quantifiable risks had been identified since the last review; and**
- (c) to an update on progress of management actions to be presented, based on the Quarter 3 position, in March 2023.**

3. BUSINESS PLAN PERFORMANCE UPDATE

With reference to paragraph 7 of the Minute of the Meeting held on 29 June 2022 there had been circulated a report which provided an update on delivery of the actions within the approved Business Plan. 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 were included in Appendix 1 to the report. 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. There were 25 key tasks due for completion during 2022/23. As detailed in Appendix 1 to the report, all actions were progressing or were complete with exceptions and delays in delivery outlined in the report. Ms Douglas presented the report and highlighted that the amendments to the plan largely related to changed completion dates which had arisen as a result of resources challenges. In response to a question regarding whether the resource challenges were temporary or systemic, Ms Douglas confirmed that the position of the Pensions and Investment Manager had not been filled following the departure of Ms Kirsty Robb whilst the report from Ms Clare Scott was being prepared. It was hoped that progress would be made recruiting to that post. The HR Shared Services Manager confirmed that the challenges which had been present from an administration perspective related to staff changes, and the delayed pay award had made a considerable impact on workload. Ms Douglas confirmed that technical support was being provided by Isio to the finance team, and had proven to be helpful. The Chief Officer, Audit and Risk confirmed that work was ongoing related to evaluate risk implications related to the business plan, and would form part of the annual assurance report.

DECISION

AGREED:-

- (a) to note the progress of the 2022/23 actions within the Business Plan; and**
- (b) the revised target dates for the actions set out in the report.**

4. **PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2022**

With reference to paragraph 3 of the Minute of the Meeting held on 15 September 2022, there had been circulated copies of a report by the Acting Chief Financial Officer which provided an update position of the Pension Fund budget to 30 September 2022 including projections to 31 March 2023. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they were to be measured against. To ensure the Fund met the standards a budget was approved on 17 March 2022 following the recommendations within the CIPFA accounting guide lines headings. The report was the second quarterly monitoring report of the approved budget. The total expenditure to 30 September 2022 was £1.186m, with a projected total expenditure of £7.4m. Following the amendment to the revised budget last quarter, there was no current requirement for any further amendments. Ms Douglas explained that whilst expenditure appeared to low for the mid-year point, investment management charges were made in arrears on a quarterly basis, and the charges for the second quarter had not been included in the figure of £1.186m. In response to a question regarding how the Fund's management fees compared to other Local Government Pension Schemes, the Acting Chief Executive explained that the Fund did not have in house investment management, and had allocated investments to a stable of fund managers. Investment costs would likely be above average, however the decision to appoint fund managers lowered the risk profile of the Fund and provided good returns. Mr Andrew Singh of Isio confirmed that when a new investment manager was appointed by the Fund overall management fees would be considered throughout the process.

DECISION

AGREED to:

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

5. **OVERPAYMENT POLICY**

With reference to paragraph 3 of the Minute of the Meeting held on 19 October 2022 there had been circulated copies of a report by the Director – People, Performance and Change which sought approval for the adoption of the Overpayment Policy for the Fund. The policy formalised practices which had been in place within the Fund and addressed the recommendation within the 2021/22 Annual Audit Report from Audit Scotland. Overpayment of Pension was not something that any party wished, however, it had to be recognised that this could occur and it was appropriate that the Fund had adopted a Policy that outlined the steps and actions that should be taken. It was also important to recognise that there were different potential causes for overpayment which had different recovery options. These were all outlined within the Overpayment Policy which could be found at Appendix 1 to the report. The recovery of any overpayment would be done in a fair and equitable manner and where recovery was to be made this would be sought without any undue delay. If it was appropriate, determined on a case by case basis, legal advice would be sought. The Fund would ensure that there were clear processes in place to prevent and investigate any potential fraudulent activity. There may be circumstances where it is appropriate to write off an overpayment rather than seeking to make recovery, this would generally be where the overpayment was less than £20.00 and it did not make economic sense to recover on the grounds of the cost of Officers time and associated costs, such as postage, against the amount outstanding. The write off values and authority to write off had been set in line with the Council's Financial Regulations. The Pensions Team had established controls in place for monitoring overpayment balances and repayments, those controls were subject to audit

examination as part of the Annual Audit carried out. The Team also took 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. In response to a question regarding the frequency of reclaimed overpayments exceeding £50k, the HR Shared Services Manager explained that the majority of overpayments tended to be between £20 and £5000, and that he was not aware of many overpayments above £5000 since he had worked in the Pensions Team.

DECISION

AGREED to approve the Overpayment Policy as set out in Appendix 1 to the report.

6. RESPONSIBLE INVESTMENT MONITORING

With reference to paragraph 9 of the Minute of the Meeting held on 29 June 2022, there had been circulated copies of a previously agreed Responsible Investment Monitoring Project Plan by Isio. Mr Singh explained that following the Committee was holding Meeting number 4 on the Plan, which concerned ESG/Climate impact assessment. A number of actions outlined in the project plan had been completed, including agreeing a formal investment policy, key responsible investment beliefs, and deciding on which metrics were to be used. A further meeting on Strategy and Risk Management would be held in June 2023 which would assess what ESG issues meant for risk, and would cover climate scenario modelling, look at different climate outcomes, and what was required as a result of TCFD regulations.

DECISION NOTED

MEMBER

Councillor Pirone, and Ms Kirsty Robb joined the meeting during the discussion of the item below.

7. TASKFORCE FOR CLIMATE RELATED DISCLOSURES GOVERNANCE POLICY

There had been circulated copies of a Climate Governance Policy by Isio with the agenda. The Policy proposed to supplement and expand upon the Statement of Investment Principles, Responsible Investment Policy, Fund Strategy Statement, and the wider Corporate Governance and Corporate Social Responsibility position with a detailed proposal for the roles and responsibilities for managing climate-related risks and opportunities. The Chief Officer – Audit and Risk highlighted that following changes to the Scheme of Administration agreed at a meeting by Scottish Borders Council at its meeting held on 25 August 2022, the Audit and Scrutiny Committee had been separated into the Audit Committee, and the Scrutiny and Petitions Committee. Mr Singh undertook to amend the diagram to reflect the changes.

DECISION

AGREED to approve the Policy.

MEMBER

Mr A Daye joined the meeting during the discussion of the item below.

8. THE PENSIONS REGULATOR SINGLE CODE REVIEW AND RECOMMENDATIONS

8.1

There had been circulated copies of a report by Clare Scott, an Independent advisor who had undertaken a review of the Governance of the Scottish Borders Council Pension Fund during October and November 2023. The Acting Chief Executive explained that Ms Scott had been unable to attend the meeting due to another client meeting, and presented the key findings of the review. A briefing session had been held

to allow members to scrutinise the review and recommendations. The analysis of the Fund was 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 the increased scrutiny of Local Government Pension Scheme funds and increasing standards of governance introduced by legislation and the Pensions Regulator. The key findings of the report included that the Fund had a number of good practices in place including that the duties of the Pension Fund Committee were solely for the Pension Fund, and membership of the Committee had been relatively stable. The report highlighted that the Pension Board met separately, directly after the Committee to consider whether the Board wished to raise any concerns with the Committee. A significant amount of time was spent by the Committee and Sub-Committee on pension matters in comparison with other LGPS funds. For a relatively small fund, the investment arrangements were very complex. The Fund had a rigorous approach to training for members of the Committee and Board. Officers were proactive in forecasting agendas for Committee meetings and the meeting agendas included a wide range of pension matters. The Fund's annual report was comprehensive and the risk register was reviewed quarterly by the Committee and Board. Comprehensive policies and strategies were in place for most functions of the pension fund, including a business plan and budget.

- 8.2 The report outlined a number of recommendations which Ms Scott had made which concerned matters related to Governance Structure and Decision Making; Objectives and Planning; Outcomes and Oversight; and Risk Management and Audit. The Acting Chief Executive highlighted the Governance Structure and Decision Making recommendations, which included that the Fund should ensure that the roles of the Committee and Board members were distinct to avoid potential conflicts of interest; that the Pension Board's constitution should be reviewed and updated; the remit of the Committee should include the assessment of the effectiveness of the Fund's systems of control, including agreeing internal audit plans and reviewing the outcome of internal audits; that the Fund should review the make-up and business of the Investment Sub-Committee; the approach to training could be more specific to the needs of members; resource requirements should be assessed to ensure functions were efficient and effective; and the Fund should consider the appointment of a single officer who had line management responsibility for all pension functions and spent the majority of their time on pension matters. The Acting Chief Executive highlighted that the appointment of a single officer could present a challenge due to the structure of the Council and its level of integration. Regarding Objectives and Planning, the Fund should put in place new policies for the management of conflicts of interests and reporting of breaches; the Pensions Administration Strategy should be expanded to include standards for internal services provided to pension fund members to ensure performance was monitored; a data improvement plan was suggested; and the Fund should regularly review the risks and resources of maintaining two systems for pensioner payroll. In the context of Outcomes and Oversight, Ms Scott had recommended that benchmarking of administration and investment should be undertaken on a regular basis, including cost and performance, with results reported to the Committee; and a large number of investment managers/mandates should be consolidated to a smaller number of asset classes. Risk Management and Audit recommendations included the Fund documenting how it complied with the Pensions Regulator Codes, and included the risk of non-compliance on the risk register; and the Fund's internal audit should be expanded to cover the Fund's specific risks. The Acting Chief Executive suggested that Officers undertake work to produce an action plan to address the recommendations suggested by Ms Scott and report back with formal recommendations to the Committee at a future meeting. Members agreed to that approach. The Chief Officer, Audit and Risk explained that some actions would require officers to assess the recommendations and outcomes in the short term, and proposed that actions were linked to risks to ensure that

the added value of implementing mitigations actions were realised. Ms Stacey was happy to consider additional assurance related to the Pension Fund as part of the work related to the Action Plan. The annual internal audit plan would be brought to the March meeting of the Committee as planned. Internal discussions would take place on resourcing internal audit services. The Acting Chief Executive highlighted that no major, unexpected concerns had been brought to light by the report, highlighted that the picture in the report as it related to the number of mandates did not necessarily reflect the operation of the Fund, and undertook to include timescales within the Action Plan. Members highlighted that the positives in the report should be emphasised

DECISION

AGREED to note the report and the course of action proposed by Officers.

9. INFORMATION UPDATE

There had been circulated copies of a Scheme Advisory Board (SAB) Bulletin by the Scottish Local Government Pension Scheme with the agenda. The Chairman explained that a workshop for SAB members had recently been held. The structural review remained paused. Ongoing developments which had the potential to impact upon LGPS had been considered, such as the proposed National Care Service, and regulatory changes. The Chairman expected that the review would remain paused for at least one year whilst work related to the National Care Service progressed. A letter would be sent to the Scottish Government Minister to seek guidance on the review.

10. PRIVATE BUSINESS

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

SUMMARY OF PRIVATE BUSINESS

11. QUARTER 3 INVESTMENT PERFORMANCE REPORT

The Committee noted the Quarter 3 Investment Performance report by Isio.

12. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE IMPACT ASSESSMENT 2022 REPORT

The Committee noted the Environmental, Social, and Governance Impact Assessment 2022 report.

The meeting concluded at 11.40 am.

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

MINUTES of Meeting of the PENSION FUND
INVESTMENT AND PERFORMANCE SUB-
COMMITTEE held via Microsoft Teams on
Monday, 31 October 2022 at 2.00 pm

Present:- Councillors D Parker (Chairman), C. Hamilton, W. McAteer, D. Moffat, S. Mountford and S. Scott
Apologies:- Councillor P. Brown, Ms K M Hughes and Ms K Robb
In Attendance:- Acting Chief Executive, Acting Chief Financial Officer, Mr A Ross (Isio), Mr A. Singh (Isio), Democratic Services Officer (D. Hall)

1. **MINUTE**
There had been circulated copies of the Minute of the meeting held on 28 June 2022.

DECISION
NOTED for signature by the Chairman.

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

SUMMARY OF PRIVATE BUSINESS

3. **PRIVATE MINUTE**
The Sub-Committee noted for signature the Private Minute of the meeting held on 28 June 2022.
4. **INVESTMENT MANAGER BRIEFING PAPER**
The Committee noted a Manager Briefing Paper by Isio.
5. **PRESENTATION - BAILLIE GIFFORD**
The Committee noted a presentation by Baillie Gifford.
6. **PRESENTATION - MORGAN STANLEY**
The Committee noted a presentation by Morgan Stanley.
7. **PRESENTATION - LGIM**
The Committee noted a presentation by LGIM.

The meeting concluded at 4.15 pm

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STATEMENT OF INVESTMENT PRINCIPLES 2023

Report by Acting Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

9 March 2023

1 PURPOSE AND SUMMARY

- 1.1 This report proposes the revised Statement of Investment Principles (SIP) for 2023. This document should be kept under review and be updated and approved annually in line with the Pension Fund's business plan. This report discharges that requirement.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles.
- 1.3 Appendix A contains the revised Statement of Investment Principles (SIP) for approval.

2 RECOMMENDATIONS

- 2.1 It is recommended that committee:**
 - (a) Approve the Statement of Investment Principles set out in Appendix A**

3 BACKGROUND

- 3.1 It is a requirement of the Local Government Pension Scheme (LGPS) Regulations that the Pension Fund maintains a Statement of Investment Principles (SIP), which is reviewed on a regular basis.
- 3.2 Local Government Pension Scheme (LGPS) administering authorities are also required by regulation to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the “Myners Principles” and the reporting of compliance with these principles, must be included in the SIP.

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

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

Myners Principle 3: Risk and Liabilities states that:

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

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

- 3.4 An authority can demonstrate compliance with these Myners Principles through the review of its investment objectives and the strategic asset allocation in light of updated actuarial valuations of the Fund’s liabilities.
- 3.5 The 2020 Valuation of the Fund reported a 110% funding position in relation to the estimated assets held against future liabilities. This is a strong position for the Fund, and it is important to continue to ensure that this position is maintained in the long term in order to meet the Fund’s primary aim:

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

4 STATEMENT OF INVESTMENT PRINCIPLES

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

Para	Amendment
4.8	Updated to reflect that the next strategic asset allocation review is expected to take place in June 2023
4.10	Updated to reflect changes in asset managers
4.18	Updated to reflect that Appendix 4 contains details of the investment arrangements in place as at 31 January 2023

4.20	Fourth bullet has the additional words added 'as well as update the Committee on Environmental, Social and Governance (ESG) issues.'
Appendix 3	Updated to reflect approved strategic asset allocation and managers
Appendix 4	Updated to reflect changes in managers

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

5.3 Integrated Impact Assessment

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

5.4 Sustainable Development Goals

The UN sustainability goals have been examined and there are no negative impacts arising from this report.

5.5 Climate Change

The recommendations of this report, per the Funds Responsible Investment Policy, will further strengthen the Funds commitment to reducing climate change. Although no direct impact on climate changes the policy continues the Fund's commitment to encourage Managers and Companies invested in to ensure the environmental impact of their operations are considered and encourage them to act in a sustainable way.

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 Chief Executive and Acting Chief Financial Officer 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: Joint Pension Fund Committee & Board – 17 March 2022

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

Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email:

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SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2023

Finance

Pension Fund Committee - 9 March 2023

Introduction

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

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 9 March 2023

1. The statutory requirements concerning the SIP

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

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed¹
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending¹

1.2 The Statement must also explain the extent to which guidance issued by Scottish Ministers has been complied with. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.¹

¹ “Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)”

2. Governance

- 2.1 **Scottish Borders Council** (the Council) is the Administering Authority for the **Scottish Borders Council Pension Fund** (the Fund). The Fund is part of the **Local Government Pension Scheme** (LGPS.)
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to any changes in fund managers, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.
- 2.6 The SIP forms part of a governance framework that includes:
 - The Statutory Regulations
 - The Pension Fund Committee
 - The Pension Fund Investment & Performance Sub-Committee
 - The Pension Board
 - The Fund's Advisers
 - The Funding Strategy Statement²
 - The Governance Policy and Compliance Statement².
- 2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

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

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

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

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

Funding Objectives

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

- To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- To build up the required assets in a way that produces employer contributions, which are as stable as possible.

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

4. Investment Policy

Investment Strategy

- 4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.
- 4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 above which is to build up the required assets in a way that produces stable employer contributions to the Fund.
- 4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.
- 4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.
- 4.5 The Fund presently has a marginal negative cash flow and currently has less actively contributing members compared to members receiving pensions. It however also has deferred members which are currently neither contributing nor receiving. The fund is a maturing fund and has reflected this in the investment strategy with a move towards a greater focus on income producing assets. The main focus of the fund however is to continue to seek capital growth to meet future liabilities.
- 4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who support the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.
- 4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.
- 4.8 The Committee undertook a full asset allocation review exercise in June 2021, taking into account the funding status and liabilities and using asset liability modelling, following the 2020 triennial valuation. A further refinement was made to the strategic assets allocation in December 2021 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period, with the next review expected in June 2023.
- 4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

Investment Management Arrangements

- 4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Macquarie Investment Management, Partners Group, Blackrock, Permira, Legal & General Investment Management (LGIM), IFM Investors, CBRE Investment Management (CBRE) and Baillie Gifford & Co (Baillie Gifford), as appropriate. The Fund also works in collaboration with Lothian Pension

Fund for Infrastructure opportunities, investing with a number of specialist infrastructure Managers.

- 4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.
- 4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.
- 4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.
- 4.14 The Fund's overall return target is to generate, at a minimum, the real discount rate assumed in the actuarial valuation. As at 31 March 2020, the date of the last Actuarial Valuation, this was 3.8% p.a.
- 4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.
- 4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.
- 4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 January 2023.

Risk Measurement and Management

4.19 *Asset Allocation*

- The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration matched index-linked government bonds, i.e. the most natural "matching" asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.
- In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities.
- Due to its maturing position, and the 110% funding position, the Fund has reduced the "growth" assets towards income generating and indexed linked assets thereby reducing the volatility of asset returns and allowing a better match to the liabilities. Despite this evolving strategy the Fund retains a significant element of its assets in equities, credit, real assets and other alternatives.
- The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.
- As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2021 by the Fund's investment consultant, it is envisaged that this will next be done during 2024 following the actuarial valuation as at 31 March 2023.

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

4.20 *Investment Managers*

- To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.
- The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or outperforms their individual targets.
- The managers must also provide data to Isio, the company chosen by the Committee to provide it with independent performance comparisons.
- The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance as well as update the Committee on Environmental, Social and Governance (ESG) issues.
- The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month’s notice.
- All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

4.21 *Proper Advice*

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

Investment Consultant	Isio
Actuaries	Hymans Robertson

4.22 *Concentration Risk and Diversification*

- Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund’s assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.
- Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.
- This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

4.23 *Transition Management Arrangements*

- A specialist transition manager will be employed to manage complex changes in investment strategy and/or manager(s).
- The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

4.24 *Currency Risk*

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

4.25 *Safe Keeping of Assets*

- The services of a global custodian, Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.
- The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.
- The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.
- Investment in pooled funds gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

4.26 *Cashflow Risk and Realisation of Investments/Liquidity*

- The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.
- 40% of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.
- 60% of the Fund's investments, in particular Property, debt, infrastructure and future investments in other alternative assets would take longer to be realised.
- Due to the mature nature of the Fund income generating assets, have increased to ensure funds are available to pay the Funds cash flow commitments. The cashflow of the Fund is reported on a quarterly basis to the Pension Fund Committee and monitored on a daily basis by Finance staff.

5. Types of Investment

- 5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:
- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
 - Bonds
 - Property
 - Currency
 - Alternative assets such as commodities, hedge funds, infrastructure, infrastructure debt, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
 - Cash (including Treasury Bills and Money Market Funds)
 - Derivatives and other Managed transactions
 - Infrastructure
- 5.2 In September 2021 the Pension Fund Committee authorised “Stock Lending” of its segregated equities within strict programme parameters administered by Northern Trust. The Fund also participate in stock lending within the pooled LGIM Equities which is administered by Citibank (LGIM’s custodian) and is indemnified by Citibank.

6. Environmental, Social and Corporate Governance Issues

- 6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.
- 6.2 The Committee has a responsibility to ensure the fund is undertaking its investment activities in a socially responsible way. This means the fund must be aware of its ESG responsibilities.
- 6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund’s fiduciary responsibilities.
- 6.4 The Committee has approved a Statement of Responsible Investment which sets out:
- overarching principles the Fund requires its investment managers to adhere to
 - delegates to the fund managers the selection and voting rights on behalf the fund
 - monitoring of the compliance of fund managers against the statement.
- 6.5 The approved Statement of Responsible Investment is set out in Appendix 5

7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team and comes within the remit of the Council's Audit Committee.
- 7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund, for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.
- 7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

8. Compliance with the Myners principles

- 8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*.
- 8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.
- 8.4 The six principles are:
 - Effective Decision Making
 - Clear Objectives
 - Risk and Liabilities
 - Performance Assessment
 - Responsible Ownership
 - Transparency and Reporting
- 8.5 **Appendix 6** contains this statement of compliance.

Appendix 1

Pension Fund Investment and Performance Sub-Committee

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

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

Appendix 2

Pension Board

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

1. The Objectives of the Board are as follows:

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

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

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

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

Appendix 3

Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range/ Tolerance %
Active - UK Equity	Baillie Gifford	3.5%	
Active - Global Equity	Baillie Gifford	13.5%	
	Morgan Stanley	13.0%	
	Sub Total	30.0%	24% - 36%
Passive Equity	LGIM	10%	8% - 12%
Total Equity		40.0%	32% - 48%
Bonds			
Alpha Opportunities	M&G	10.0%	
Index Linked Gilts	M&G	6.0%	
	Total	16.0%	12% - 17%
Alternatives ²			
Multi-Asset Alternatives Fund	LGT Partners	4.0%	
Direct Lending	Permira	5.0%	
	Partners Group	5.0%	
Infrastructure Equity		5.0%	
Infrastructure Equity	IFM	3.0%	
Infrastructure debt (junior)	Macquarie	2.5%	
Infrastructure debt (senior)	Macquarie	5.0%	
	Total	29.5%	24% - 36%
Property			
Residential	CBRE	2.5%	
Long Lease Property	Blackrock	12.0%	
	Total	14.5%	12% - 17%
Cash		0.0%	

Total	100.0%
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Note:

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

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

Appendix 4

Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used
Active UK Equity	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index
Active Global Equity	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Total return Index
Passive Equity	LGIM	Benchmark return		Solactive L&G ESG Global Markets Index
Bonds				
Alpha Opportunities	M&G *	Benchmark Return	+3.5% - 5%	1 Month SONIA
Index Linked Gilts	M&G	Benchmark Return	+0.75%	UK Index Linked Gilts
Multi-Asset Alternatives Fund	LGT Partners	Benchmark Return	+4.0%	3 month LIBOR
	Permira	Benchmark Return	+4.0%	1 month LIBOR
	Partners Group	Benchmark Return	+4.0%	1 Month SONIA
	Infrastructure		+3.5%	RPI
	Macquarie - Infrastructure debt (junior)	Benchmark Return	+4.0%	1 Month LIBOR
	Macquarie Infrastructure debt (senior)	Benchmark Return	+2%	3 Month LIBOR
	IFM Investors	Absolute Performance Objective	+10%	Not Defined
Property				

Blackrock	Benchmark Return	+2.5%	RPI
CBRE	Absolute Performance Objective	+6%	Not Defined

Appendix 5

SCOTTISH BORDERS COUNCIL PENSION FUND

RESPONSIBLE INVESTMENT POLICY

Approved 16 Sept 2021

Scottish Borders Council Pension Fund Statement of Responsible Investment

1. Introduction

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

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

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

2. Rationale for the Policy

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

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

3. Impact of the Policy on investment decision making

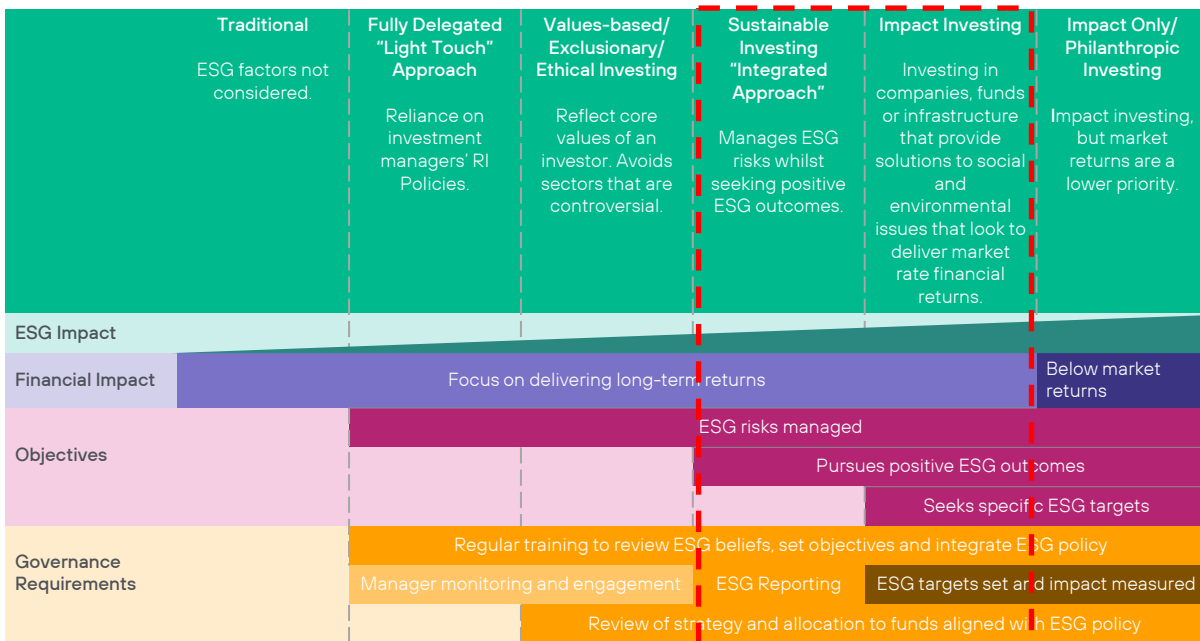
The Committee decides the Fund’s investment strategy and asset allocation. This includes which asset classes the Fund should be invested in e.g. equity, credit, property and infrastructure. In making any portfolio construction decisions, the Committee will have regard for this Policy.

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

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

4. ESG approach

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



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

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

5. Overarching Principles

Environmental

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

Social Responsibility

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

Corporate Governance

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

6. The Committee's ESG beliefs

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

Risk Management

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

Approach/Framework

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

Voting & Engagement

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

Reporting & Monitoring

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

Collaboration

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

7. Implementing the Policy

The Committee will implement the policy through the following steps:

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

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

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

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

8. Monitoring and reviewing the Policy

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

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

The PRI is a proponent of responsible investment.

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

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

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

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

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

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

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

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

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

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

Examples of ESG factors include:

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

Appendix 6

Statement of Compliance with Myners Principles

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

Principle	Best Practice Guidance	Fund’s Current Status
<p>1. Effective Decision-Making</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<ul style="list-style-type: none"> • The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity. • The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified. • The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making. • There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions. 	<p>Full Compliance</p> <ul style="list-style-type: none"> • The Fund has a designated committee – the Committee - with the experience and skills to take decisions. • The Committee’s terms of reference is contained within the Scheme of Administration for the Council. • The Committee receives training either during meetings or at specific training sessions, including on investment issues. • Induction training is provided for new Members and Officers. • All new members required to complete The Pension Regulator trustee toolkit within 6 months of joining • The Committee has an appointed investment consultant to provide specific investment advice. • The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee

Principle	Best Practice Guidance	Fund's Current Status
<p>1. Effective Decision-Making (contd.)</p>	<ul style="list-style-type: none"> • It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making. • The committee should obtain proper advice at reasonable intervals from suitably qualified persons. • The Chief Financial Officer should be given responsibility for developing a training plan for committee members. • A business plan should be in place which should include milestones and should review level of resources needed. • Members allowances should be published and reviewed regularly. • Meeting papers should be clear and circulated sufficiently in advance of the meetings. 	<ul style="list-style-type: none"> • The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making. • The Committee carry out regular reviews of the Fund and compliance with regulations. • The Investment Consultant, Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee. • The Committee's legal advisers and any other relevant parties review any new investment contracts put in place. • There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members. • Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer • A 3 year business plan was agreed by the Committee annually and is monitored regularly. • Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007. • Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site.

Principle	Best Practice Guidance	Fund's Current Status
<p>2. Clear Objectives</p> <ul style="list-style-type: none"> An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. <p>2. Clear Objectives (contd)</p>	<ul style="list-style-type: none"> The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities. The desirability of asset liability modelling should be considered. Proper advice should be taken where appropriate. Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return. Peer group benchmarks should be avoided. Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available. 	<p>Full compliance</p> <ul style="list-style-type: none"> The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers to inform the Investment Strategy. The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the Committee set the investment managers individual mandate objectives and risk parameters. An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation. Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices. The Committee regularly reviews the investment structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the

Principle	Best Practice Guidance	Fund's Current Status
	<ul style="list-style-type: none"> • Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention. • The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established. • Transaction and transition costs should be fully understood. 	<p>appointment of managers which includes a review of cost, objectives and mandates (including risk).</p> <ul style="list-style-type: none"> • The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio. • At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers. • When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored. • As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.

Principle	Best Practice Guidance	Fund's Current Status
<p>3. Risk and Liabilities</p> <ul style="list-style-type: none"> • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	<ul style="list-style-type: none"> • The committee should have a clear policy on willingness to accept underperformance due to market conditions. • Acceptable tolerances from market index benchmarks returns should be stated. • Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices. • Overall fund objectives should be expressed in terms which relate to the liabilities. • The committee must receive an assessment of the risks associated with their liabilities, valuation and management. • The annual report should include an overall risk assessment. 	<p>Full compliance</p> <ul style="list-style-type: none"> • The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy. • Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors. • The overall Fund investment objective is expressed in terms which relate to the liabilities. • The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. A further review was undertaken in 2018 following the 2017 Actuarial valuation.. • The annual report includes a Risk Management Statement

Principle	Best Practice Guidance	Fund's Current Status
<p>3. Risk and Liabilities (contd)</p>	<ul style="list-style-type: none"> The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer. The committee should ensure the investment strategy is consistent with the scheme employers ability to pay. 	<ul style="list-style-type: none"> The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls. The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay.

Principle	Best Practice Guidance	Fund's Current Status
<p>4. Performance Assessment</p> <ul style="list-style-type: none"> Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members. 	<p>Investments</p> <ul style="list-style-type: none"> The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls. The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales. Constraints on active managers should not be overly narrow or overly wide. 	<p>Full compliance</p> <ul style="list-style-type: none"> The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods.

Principle	Best Practice Guidance	Fund's Current Status
	<ul style="list-style-type: none"> • Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods. • Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency. <p>Advisers</p> <ul style="list-style-type: none"> • Assessment should take account of the extent of decisions delegated. • A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors. <p>Decision making bodies</p> <ul style="list-style-type: none"> • The committee's self assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report. 	<ul style="list-style-type: none"> • The performance of the investment managers is measured quarterly by an independent performance monitoring company. • A comprehensive quarterly performance report is presented to the Committee. • Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports. • The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations. • Factors such as past performance and price are taken into account when re-tendering for external advisers. • Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for.

Principle	Best Practice Guidance	Fund's Current Status
<p>5. Responsible Ownership</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, • includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities. 	<ul style="list-style-type: none"> • Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report. • The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers. • The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. • The committee should ensure its policies are not overridden by an investment manager's general policies. • The committee should ensure that investment consultants adopt the Institutional Shareholder Committee's (ISC) Statement of Practice relating to consultants. 	<p>Full compliance</p> <ul style="list-style-type: none"> • The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents. • The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund. • The Statement of Responsible Investments states the Committee's policy on responsible ownership. • Voting on underlying shareholdings is delegated to the fund manager. • Details of the investment manager's house strategy are requested from the manager. • Feedback on interventions to be provided during meeting with manager (minimum of once per annum). • The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.

	<ul style="list-style-type: none"> The ISC’s Statement of Principles on the responsibilities of Institutional shareholders should be noted. 	
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Principle	Best Practice Guidance	Fund’s Current Status
<p>6. Transparency and Reporting</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to scheme members in the form they consider most appropriate. 	<p>Reporting ensures that:</p> <ul style="list-style-type: none"> An integrated approach to governance should be built and governance compliance statements should be maintained regularly. The Fund’s communication statement must set out the policy on the provision of information, the format and the promotion of the scheme. Examples of good communication from other funds should be sought. Annual report content should be compared to the regulations. Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information. The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance. The committee should know its stakeholders and the interests they have. 	<p>Full compliance</p> <ul style="list-style-type: none"> The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year. Examples of good communication from other funds are sought. Communications are sent to members whenever important changes to the Fund take place, or to provide updates. The Fund operates transparently and enhances accountability to scheme members. The Fund’s Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance. The Fund post all communications, policy documents and consultations on website www.scottishborderscouncilpensionfund.org

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley, in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley
Draft 2017 1.0	Final draft of SIP to present to Pension Fund Committee on 22 June 2017	June 2017	K Robb
Draft 2019 1.0	Final draft of SIP to present to Pension Fund Committee on 6 June 2019	June 2019	K Robb
Draft 2020	Final draft of SIP to present to Pension Fund Committee on 6 June 2020	June 2020	K Robb
Draft 2022	Final draft of SIP to present to Pension Fund Committee on 17 March 22	March 22	K Robb
Draft 2023	Final draft of SIP presented to Pension Fund Committee on 9 March 2023	March 2023	Isio

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RISK REGISTER UPDATE

Report by Acting Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

9 March 2023

1 PURPOSE AND SUMMARY

- 1.1 This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an update on the risk register.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 Following the Committee meeting on 13 December 2022, the Council appointed Isio to assist with the management of the Pension Fund. As part of their remit, they have reviewed the risk register and have made a number of observations and comments.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Committee and Board:**
 - (a) Agrees to a review of the risk register as outlined in the main report; and**
 - (b) Agrees to the timetable as set out in paragraph 3.1(f).**

3 RISK OBSERVATIONS AND COMMENTS

3.1 Following the Committee meeting on 13 December 2022, the Council appointed Isio to assist with the management of the Pension Fund. As part of their remit, they have reviewed the risk register and have made the following observations and comments:

- a)** Objectives – The Committee should take the opportunity to set its objectives for the risk register and ensure the risks are appropriate, easily measurable and within their control. The risks should also be aligned with those of the Council.
- b)** Policy – The Committee should consider having a risk framework policy.
- c)** Recommendations – The review of the risk register should take into account the recommendations made by Clare Scott’s report (which was presented to the Committee on 13 December 2022), those arising from the Internal Audit report and the External Audit report by Audit Scotland.
- d)** Number - The number of risks (51) are too many and, therefore, should be reduced to a manageable amount. The average number of risks for a pension fund risk register would be between 20 and 25. However, the review will take into account what other similar local government schemes’ risk registers look like.
- e)** Categories – The current categorisation of risks should be reviewed with a view of having risks under the following categories:
 - Funding
 - Investment
 - Administration
 - Governance
 - Operational
- f)** Timetable – the Committee should note the anticipated timetable for this review:
 - June 2023 - Objectives, policy, and mapping of current risks to the new risk register
 - September 2023 – Full review of the new risk register
 - December 2023 – Review of Funding and Investment categories
 - March 2024 – Review of Administration category
 - June 2024 – Review of Governance and Operational categories.

4 IMPLICATIONS

4.1 Financial

There are no direct financial implications of this report.

4.2 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.

4.3 **Integrated Impact Assessment**

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report.

4.4 **Sustainable Development Goals**

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

4.5 **Climate Change**

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

4.6 **Rural Proofing**

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

4.7 **Data Protection Impact Statement**

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

4.8 **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.

5 **CONSULTATION**

- 5.1 The Interim Chief Officer Corporate Governance (and Monitoring Officer), the Chief Officer Audit and Risk, the Director People, Performance and 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

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 13 December 2022

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PENSION FUND BUDGET MONITORING TO 31 December 2022

Report by Acting Chief Financial Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

9 March 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 31 December 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 guidelines headings. This report is the third quarterly monitoring report of the approved budget.
- 1.4 The total expenditure to 31 December 2022 is £3.739m (please see section 4.1 for the breakdown) with a projected total expenditure of £7.4m.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee:-

- (a) Notes the actual expenditure to 31 December 2022.**
- (b) Notes the projected outturn 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 three 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 31 DECEMBER 2022

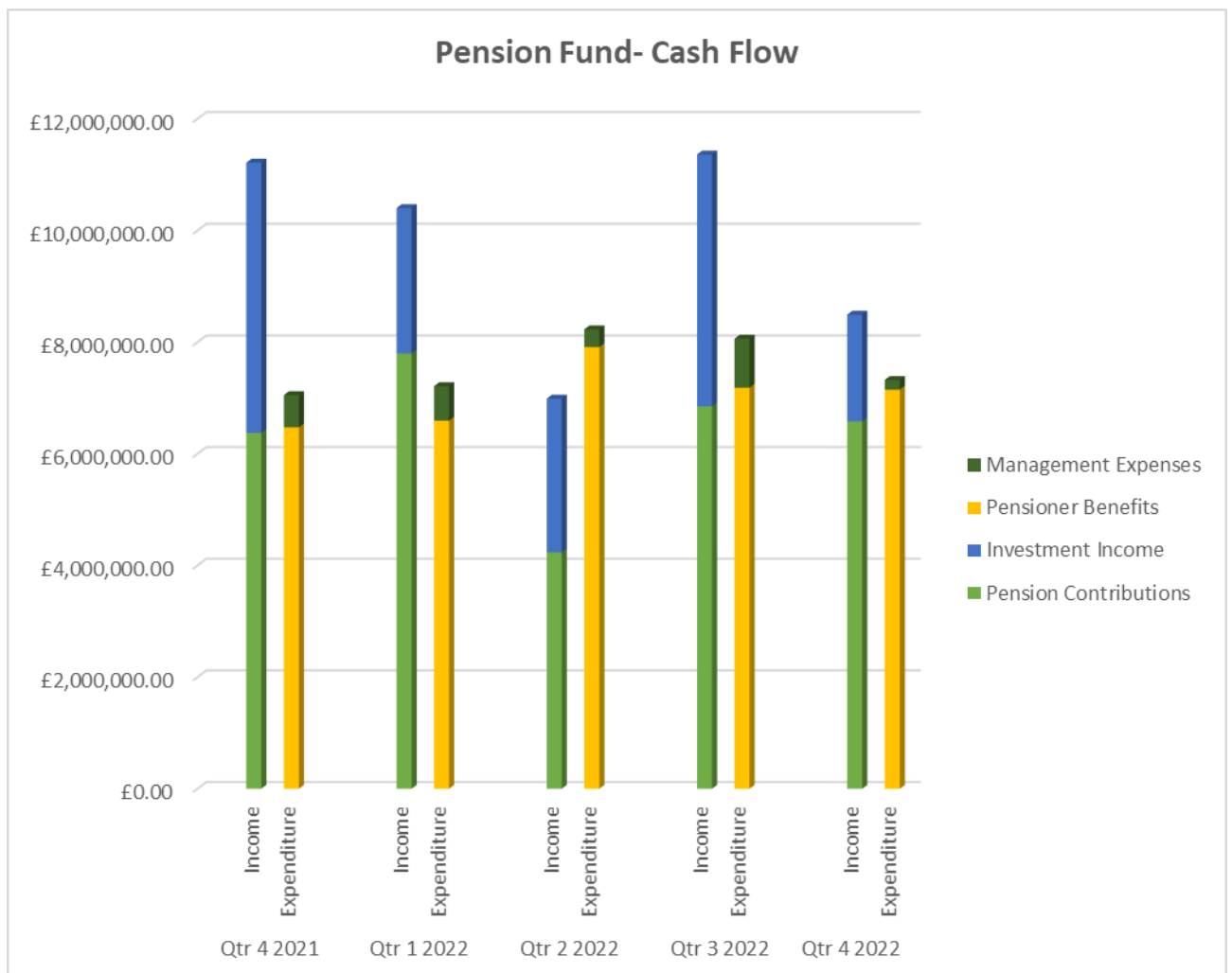
- 4.1 The table below shows the expenditure to 31 December 2022, projected outturn to 31 March 2023 and current approved budget for 2022/23.

	Expenditure to 31 December 22 £000's	Projected to 31 March 23 £000's	2022/23 Budget £000's	2022/23 Variance £000's
Investment Management	3,265 (Please see 4.2)	6,564	6,564	0
Administration	369	497	497	0
Oversight & Governance	105	339	339	0
Total	3,739	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 third quarter's investment management fees are not, therefore, included in the expenditure to 31 December 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 the Committee incorporates an element of income generating assets to supplement member and employer contributions. These income generating 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 the cash expenditure for pension benefits, investment manager fees and operational costs of the Fund on a quarterly basis from September 2021 to December 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 £56m and cash expenditure was £45.7m, resulting in a cash surplus of £10.3m 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 manage the operation of the Fund and reflects the compliance with 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 requirement under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity, and socio-economic factors have duly been considered when preparing this report.

6.4 Sustainable Development Goals

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

6.5 Climate Change

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

6.6 Rural Proofing

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

6.7 Data Protection Impact Statement

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

6.8 Changes to Scheme of Administration or Scheme of Delegation

There are no 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 13 December 2022

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INTERNAL AUDIT ANNUAL PLAN 2023/24 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

9 March 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present for approval the Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund to enable the Chief Officer Audit & Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk-based plans to set out the areas of Internal Audit activity, consistent with the objectives of the Pension Fund.
- 1.3 A fundamental role of the Internal Audit function is to provide senior management and members with independent and objective assurance, which is designed to add value and improve the organisation's operations. In addition, the CAE is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment.
- 1.4 The proposed Internal Audit Annual Plan 2023/24 for the Pension Fund in Appendix 1 sets out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process include a clear understanding of the organisation's functions, associated risks, and assurance framework.
- 1.5 There are resources currently in place to achieve the Internal Audit Annual Plan 2023/24 for the Pension Fund and to meet its objectives.

2 RECOMMENDATIONS

- 2.1 I recommend that the Joint Pension Fund Committee and Pension Fund Board:**
 - a) Approve the Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund; and**
 - b) Note that any changes in-year will be brought back for its approval.**

3 BACKGROUND

- 3.1 The Scottish Borders Council Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (updated 2017). The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:
- Standard 2010 – Planning which states that “the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”
 - Standard 2020 – Communication and Approval which states that “the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.”
- 3.2 Key components of the audit planning process include a clear understanding of the Pension Fund Committee and Board roles and responsibilities, priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the potential range and breadth of audit areas for inclusion within the plan, consistent with the organisation’s goals. This exercise is informed by key developments at both a national and local level and other relevant background information associated with pension funds.
- 3.3 The Internal Audit Charter and Internal Audit Strategy associated with Scottish Borders Council’s Internal Audit function, to be presented for approval by SBC’s Audit Committee on 13 March 2023, are applicable to the Scottish Borders Council Pension Fund. The Internal Audit Strategy outlines the strategic direction for how the Internal Audit function will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality Internal Audit services to various entities, including the Scottish Borders Council Pension Fund.

4 INTERNAL AUDIT ANNUAL PLAN 2023/24 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND

- 4.1 The Internal Audit proposed work for 2023/24 has been informed by the risks, controls and mitigation actions as set out within the Pension Fund’s Risk Register to ensure that the Internal Audit plan is risk-based and provides relevant assurance for the Pension Fund. Internal Audit work will take account of the planned refocus on the risk register.
- 4.2 The Internal Audit Annual Plan 2023/24 at Appendix 1 has been developed by the Chief Officer Audit & Risk (CAE) and the Principal Internal Auditor of Scottish Borders Council. It sets out the range and breadth of audit activity and sufficient work to enable the CAE to prepare an Internal Audit annual opinion for the Scottish Borders Council Pension Fund.
- 4.3 The Acting Chief Financial Officer and HR Shared Services Manager of Scottish Borders Council, and the Head of Governance at ISIO have been consulted to capture potential areas of risk and uncertainty more fully. These discussions will continue on a regular basis to ensure Internal Audit assurance meet the needs of Management and other key stakeholders of the Pension Fund.

- 4.4 Internal Audit resources relating to the provision of assurance services to the Scottish Borders Council Pension Fund are outlined in the Scottish Borders Council Internal Audit Annual Plan 2023/24, which will be presented for approval by SBC's Audit Committee on 13 March 2023. A total of 20 days have been allocated to provide Internal Audit assurance services to the Scottish Borders Council Pension Fund for 2023/24, which reflects the Council's contribution of corporate support resources. This allocation of Internal Audit days has increased from 5 days previously to reflect the increase in the range and breadth of audit work proposed for the Pension Fund during 2023/24 which has been discussed with relevant Officers; this is in response to 'The Pensions Regulator Single Code Review and Recommendations' report that was presented to the Joint Pension Fund Committee and Board meeting on 13 December 2022.
- 4.5 Staff assigned to perform the Internal Audit work for the Pension Fund hold relevant professional qualifications and have the necessary experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to deliver the Plan.
- 4.6 It is envisaged that 2023/24 will continue to be a year of change for the Pension Fund. Therefore the Plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities. Any amendments relating to the Pension Fund will be discussed with relevant Officers and will be brought to the Joint Pension Fund Committee and Board for approval.

5 REPORTING OF INTERNAL AUDIT RESULTS

- 5.1 The Internal Audit Annual Plan 2023/24 for the Pension Fund includes sufficient work to enable SBC's Chief Officer Audit & Risk (the appointed Chief Internal Auditor to the Pension Fund) to prepare an annual independent and objective audit opinion on the adequacy of the Scottish Borders Council Pension Fund's arrangements for risk management, governance and control.
- 5.2 At the end of the year, the Internal Audit Annual Assurance Report 2023/24 for the Scottish Borders Council Pension Fund will be presented to Management and to the Joint Pension Fund Committee and Board, for governance and scrutiny purposes. The assurance report will include:
- the statutory audit opinion based on the Internal Audit work during the year;
 - the results from each audit category outlining the risks, controls and conclusions;
 - progress with implementation and outcomes of agreed improvement actions; and
 - any recommendations that have been made, with the associated Management response, responsible owner and timescale for implementation.
- 5.3 The Internal Audit findings and annual opinion will be used to inform the Scottish Borders Council Pension Fund's Governance Compliance Statement for inclusion in the Scottish Borders Council Pension Fund's Annual Report and Accounts.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this assurance report.

6.2 Risk and Mitigations

The Pension Fund Risk Register was considered as part of the planning process. This report sets out the Internal Audit plan in Appendix 1 that will provide assurance, including assurance on arrangements for managing risks, as part of the governance framework to manage the operation of the Pension Fund and reflects best practice.

6.3 Integrated Impact Assessment

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). It does not relate to new/amended policy/strategy and an integrated impact assessment is not an applicable consideration.

6.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals.

6.5 Climate Change

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

6.6 Rural Proofing

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

6.7 Data Protection Impact Statement

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

6.8 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

7.1 The Acting Chief Financial Officer and HR Shared Services Manager of Scottish Borders Council, and Head of Governance at ISIO, have been consulted on the proposed coverage within the Internal Audit Annual Plan 2023/24 for the SBC Pension Fund to capture potential areas of risk and uncertainty more fully. These discussions will continue on a regular basis to ensure Internal Audit assurance meet the needs of Management and other key stakeholders of the Pension Fund.

7.2 In addition, Scottish Borders Council's Interim Chief Officer Corporate Governance (and Monitoring Officer), the Director People, Performance and 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

Jill Stacey, SBC Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	SBC Chief Officer Audit and Risk Tel 01835 825036
Sue Holmes	SBC Principal Internal Auditor Tel 01835 825556

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board, 17 March 2022

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

Contact us at Internal Audit intaudit@scotborders.gov.uk

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Internal Audit Annual Plan 2023/24 for Scottish Borders Council Pension Fund

Ref	Category	Audit	Commentary
1.	Assurance	Internal Control, Governance and Risk Management	<p>Assess the Pension Fund's corporate governance arrangements in place to deliver its objectives set out in its Business Plan. Use the Governance Policy and Compliance Statement as an integrated toolkit to test key elements to determine whether these are operating as described. Assess compliance with the Stewardship Code, including progress with implementation of agreed improvements.</p> <p>Specific review of the Pension Fund's risk management arrangements including the planned refocus of the risk register to reflect current objectives.</p>
2.	Assurance	Business plan improvements and developments	Assess whether the Business Plan is aligned to Pension Fund priorities and objectives, and specifically review progress with the key tasks and actions that are due to be completed during 2023/24.
3.	Assurance	Investment practices	<p>Check a sample of Investment transactions to test key controls including segregation of duties, documentation, and compliance with the Pension Fund's Responsible Investment Policy and procedures.</p> <p>Assess progress with implementation of actions in response to the Investment Oversight recommendations within The Pensions Regulator Single Code Review report.</p>
4.	Other	Recommendations Follow Up Review	Follow-up progress by Management with implementation of Audit Actions and areas of improvement by the agreed date recommended in 2022/23 audit assurance work and check on the adequacy of new internal controls.
5.	Other	Advice and Consultancy	As a 'critical friend' to Management, provide advice and internal challenge on projects involving major change and systems implementation.
6.	Other	Administration of National Reports	Monitor publication of national reports relevant to Pension Fund and co-ordinate submission by Management of these reports to the Committee / Board that give rise to introducing best practice arrangements or lessons learned from other Pension Funds.
7.	Other	Attendance at Boards / Committees	Prepare for and attend Committee / Board meetings and other relevant forums to observe planning, approval, monitoring and review activity of business and performance.
8.	Other	Audit Planning for 2024/25	Review strategic risks and audit universe, develop and consult on proposed coverage within the Internal Audit Annual Plan 2024/25 for the SBC Pension Fund.
		Total 20 days	

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Scottish Borders Council Pension Fund

Annual Audit Plan 2022/23 – DRAFT



Prepared for Scottish Borders Council Pension Fund

March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Scottish Borders Council Pension Fund (the Fund). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts and the provision of an Independent Auditor's Report
- an opinion on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement.
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes

Audit Appointment

2. We are pleased to be appointed as the external auditor of the Fund for the period 2022/23 to 2026/27 inclusive. An introduction to the members of your audit team is at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by attending the meetings of the Pension Fund Committee and Pension Board and by recommending and encouraging good practice. In so doing, we will help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the Fund

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Fund. Key responsibilities are summarised below.

Auditor responsibilities

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

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements within the Fund. In doing this, we aim to support improvement and accountability.

The Fund's responsibilities

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

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

Financial statements audit planning

Introduction

11. The annual accounts are an essential part of demonstrating the Fund's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of the highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the key systems on which the financial statements will be based.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the Fund are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Quantitative materiality levels for the Fund

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Funds operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross investment assets based on the Q2 2022/23 investment performance reporting.	£12.5 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.	£7.5 million

Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This is set at 2%. £0.25 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

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

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Test journals at the year-end and post-closing entries and focus on significant risk areas. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

Significant risk of material misstatement	Sources of assurance	Planned audit response
management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> Evaluate significant transactions outside the normal course of business. We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.
<p>2. Estimation applied to Level 3 Investments</p> <p>The fund has a significant portfolio of level 3 investments (£324 million at 31 March 2022) for example in unquoted equities where valuations involve the application of a variety of estimates in determining appropriate valuations. This subjectivity gives rise to a significant risk of material misstatement in the financial statements, relating to accuracy.</p>	Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed professional, accounting and industry codes and guidelines.	<ul style="list-style-type: none"> Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation. Review user entity controls in relation to the use of the custodian. Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk. Review the arrangements in place at the Fund to assess investment managers' governance arrangements. Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk for the Fund because:

- the split of responsibilities amongst the Fund, its fund managers, its custodian and the bank provide a clear separation of duties reducing the risks relating to investment income
- having considered the value and the nature of contribution income, which is paid over from employers, we have concluded there is not a significant risk in this area.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have rebutted this risk for the Fund because:

- management fees are reported transparently
- pension benefits are the Fund's main expenditure stream. There is no incentive for the Fund to manipulate the amount of benefits paid and we have concluded there is not a significant risk in this area.

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

Other areas of audit focus

23. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

24. The areas of specific audit focus are:

- **Estimations applied to the International Accounting Standard (IAS) 26 actuarial valuation** - The disclosure of the actuarial valuation of the pension fund liabilities involves a complex accounting estimate. The Pension Fund engage an independent actuary to support the estimation. The valuation is based on a range of financial and demographic estimations about the future, based on a well-established methodology. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.

Wider Scope

Introduction

25. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

26. In summary, the four wider scope areas cover the following:

- **Financial management** – we consider the financial capacity of the Fund and whether there are sound budgetary processes and internal controls in place.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the leader of the Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the Fund demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

27. We have identified a wider scope audit risk in the areas, set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3

2022/23 Wider scope risk

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>The Fund's investments have reduced from £911 million at 31 March 2022, to £835 million at 30 September 2022. This fall in value of investments relates to the economic climate during 2022.</p> <p>If this fall in value of investments continues throughout the financial year, it may place pressure on contribution rates. Given the current economic environment, there could be challenges around affordability for increased contributions (if required).</p>	<p>Management will continue to work with investment consultants, ISIO, to identify investments which help support income generating assets in line with the Statement of Investment Principles 2022.</p> <p>Management will work with the actuary, Hymans Robertson, regarding appropriate contribution rates.</p>	<ul style="list-style-type: none"> • Review the performance of the Fund through the year through ISIO quarterly performance reports. • Review investment performance against the benchmark returns set for the year in the Statement of Investment Principles 2022. • Evaluating the arrangements in place at the Fund for monitoring performance against its financial plans, including funding strategy. We will consider how the Fund monitors its investment portfolio to ensure investment risk is managed while delivering financial returns.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

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

31. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Pension Fund Committee and Pension Board - Date
Annual Audit Plan	27/02/2023	09/03/2023
Independent Auditor's Report	September 2023	September 2023
Annual Audit Report	September 2023	September 2023

Source: Audit Scotland



Timetable

32. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

33. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

34. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working, where this works with the body's own arrangements. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	22 June 2023
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Interim S95 Officer	September 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	September 2023
Agreement of audited and unsigned annual accounts	September 2023
Issue of Annual Audit Report to those charged with governance.	End September 2023
Signed Independent Auditor's Report	End September 2023

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of the Fund and the planned management assurances in place. The proposed audit fee for 2022/23 is £24,880 as set out in [Exhibit 6](#).

36. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

Exhibit 6 Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	43,050
Pooled costs	0
Contribution to Audit Scotland costs	1,630
Contribution to Performance and Best Value	0
Sectoral Cap Adjustment	-19,800
Total 2022/23 fee	24,880

Source: Audit Scotland

37. Details of the components of the Audit Fee have been separately communicated to Management. In setting the fee for 2022/23 auditors have the opportunity for agreeing local increases from the baseline fee depending on the risks and anticipated audit work identified during audit planning. The above proposed fee has been retained at the baseline fee. We have assumed that the Fund has sound governance arrangements in place and operating effectively and will prepare comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of the work in year. Where our audit cannot proceed as planned a supplementary fee may be levied.

Other matters

Internal audit

38. It is the responsibility of the Fund to establish adequate internal audit arrangements. Scottish Borders Council's Internal Audit Service provide internal audit services on behalf of the Fund. We will review the internal audit plan and the results of internal audit's work.

39. We will consider the findings from internal audit reports where they raise issues that could have an impact on the financial statements or our wider scope responsibilities, however, we will not place formal reliance on the work of internal audit in 2022/23.

Independence and objectivity

40. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

41. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

42. The appointed auditor for the Fund is John Boyd, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Fund.

Quality control

43. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

44. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

45. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1), applicable from 15 December 2022, and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

46. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

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

Appendix 1. Your audit team

48. The senior team involved in the external audit of the Fund have significant experience in public sector audit

John Boyd
Audit Director
jboyd@audit-scotland.gov.uk

John is the Audit Director, with overall responsibility for the Audit Engagement. John has considerable audit experience across public sector audits including local government, pension funds, health and central government sectors. John is the Audit Scotland Audit Services Group Lead for local authority and pension fund audits and is a member of the Local Authority (Scotland) Accounting Advisory Committee (LASAAC).

Stephanie Harold
Senior Audit Manager
sharold@audit-scotland.gov.uk

Stephanie has over 11 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Emma Carrigan
Senior Auditor
ecarrigan@audit-scotland.gov.uk

Emma has considerable experience in planning and delivering audits across the public sector. Emma will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

49. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Scottish Borders Council Pension Fund

Annual Audit Plan 2022/23 - DRAFT

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INFORMATION UPDATE

Briefing Paper by Acting Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

9 March 2023

1 PURPOSE AND SUMMARY

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

2 SCOTLAND 2020 SECTION 13

- 2.1 As part of the Public Service Pensions Act 2013 a requirement was placed on Scottish Ministers to carry out an independent review of every LGPS local valuation to ensure it complies with four criteria:
- **Compliance** with the Regulations
 - A valuation that is not **inconsistent** with others
 - A funding plan that ensures **solvency** of the fund
 - A **long-term cost efficient** funding plan
- 2.2 The Government Actuary's Department (GAD) have been working on the review of the 2020 local actuarial valuations and have recently shared their draft outcomes with Hymans Robertson, the Fund Actuary. One of the outputs they have shared is a summary of the information they have used for the report and their solvency and long-term cost efficiency analysis for each fund (the compliance and consistency check is carried out at advisor level instead of fund-level). The attached report (refer to 230309-PFC-Information Update-Appendix 1) details the GAD information and analysis (which is formed of various metrics). Whilst there is a significant amount of detail behind each metric, the key point is that the Scottish Borders Pension Fund has received no amber or red flags (i.e., they have raised no concerns to GAD). We expect that this information will be contained in GAD's final report.

- 2.3 Note that GAD have asked Hymans Robertson to communicate the following alongside the analysis: *"Please note a green or white flag does not necessarily indicate that no risk is present and similarly the fact that we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions."*
- 2.4 In terms of next steps, Hymans Robertson do not know when GAD will be publishing their final report.
- 2.5 Hymans Robertson will continue to engage with GAD for this exercise on the Fund's behalf and will keep us up to date with any emerging relevant information.

3 ACTUARIAL VALUATION AS AT 31 MARCH 2023

- 3.1 The Committee should note that the next actuarial valuation of the Fund will be carried out as at 31 March 2023 by Hymans Robertson. Attached (refer to 230309-PFC-Information Update-Appendix 2) is a high-level timetable which also shows when decisions will be required.

4 STEWARDSHIP CODE

- 4.1 As the Committee are aware, the Council submitted an application to be a signatory of the Stewardship code to the UK Financial Reporting Council (FRC) on the 31st October 2022. We are delighted to confirm that we were notified on the 10th February 2023 of the successful outcome of the Council's application to be signatories of the Stewardship code. We believe this accreditation puts the Fund in a very select group of LGPS funds who have already achieved this accreditation.
- 4.2 In confirming the successful application, the FRC also highlighted some areas for further improvements and confirmed we will need to take forward a number of future actions to sustain the accreditation.
- 4.3 A further report will be brought back to the next Committee meeting, which will include an action plan for delivery of the required improvements.

5 REVIEW OF GOVERNANCE REPORT BY CLARE SCOTT

- 5.1 As the Committee are aware, Clare Scott presented her report at the meeting on the 13th December 2022. The report contained some key recommendations which the Council has reviewed, and a number of matters are in progress such as:
- the review of the Risk Register
 - internal audit review of the management of investments
 - the training programme.

However, as advised in the December 2022 Committee meeting, a more detailed action plan would be worked on, and this will be brought back to the Committee at the next meeting.

6 SCHEME ADVISORY BOARD

6.1 Scheme Advisory Board Bulletin-meeting took place on 8th February 2023. No bulletin received to date.

7 TRAINING OPPORTUNITIES

7.1 Annual knowledge skills assessments will be sent to Committee members to establish further training requirements for a programme throughout 2023/2024.

7.2 Isio has very helpfully offered to provide training for Committee members and internal colleagues on Investments, Funding and Administration.

8 FUTURE MEETINGS

8.1 The dates of future meetings are given below for information.

Joint Pension Fund Committee and Pension Fund Board

- Thursday 22nd June 2023

Pension Fund Investment and Performance Sub-Committee

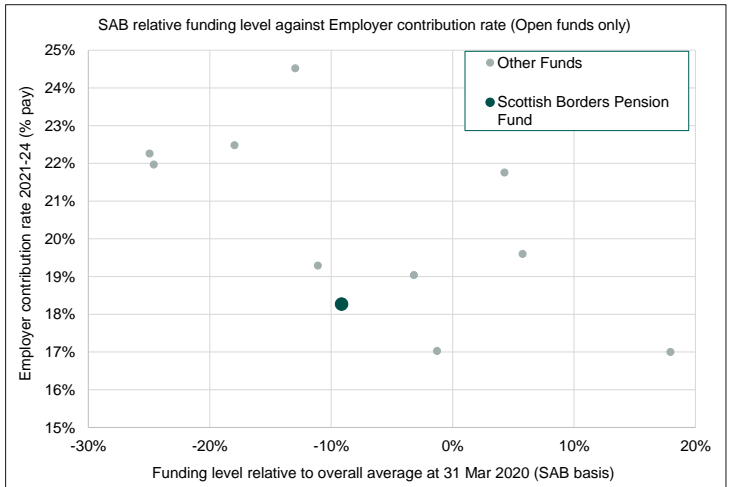
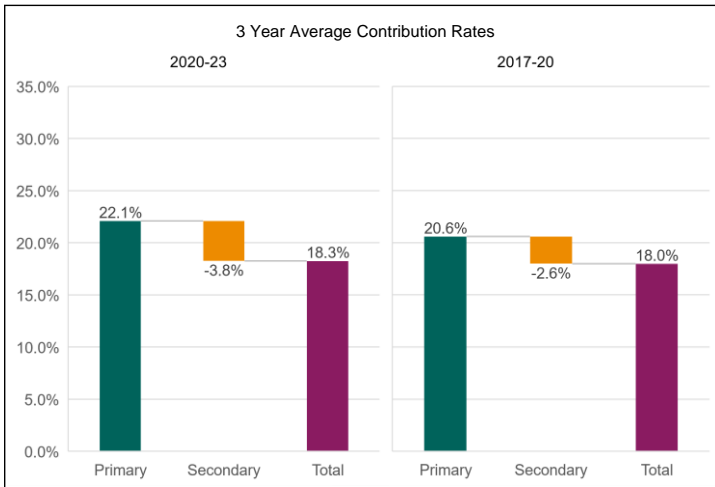
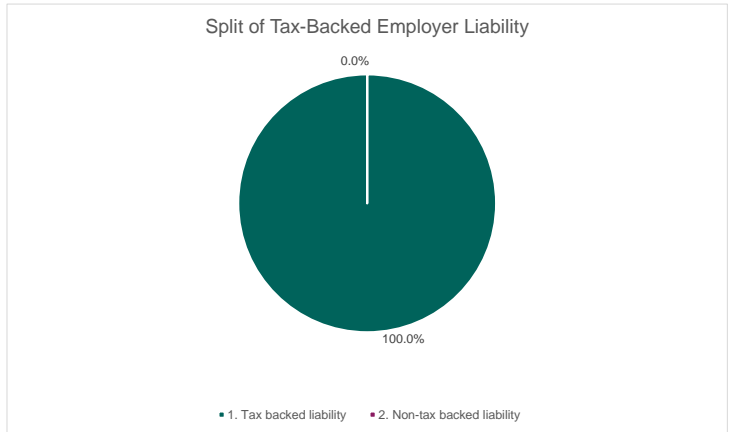
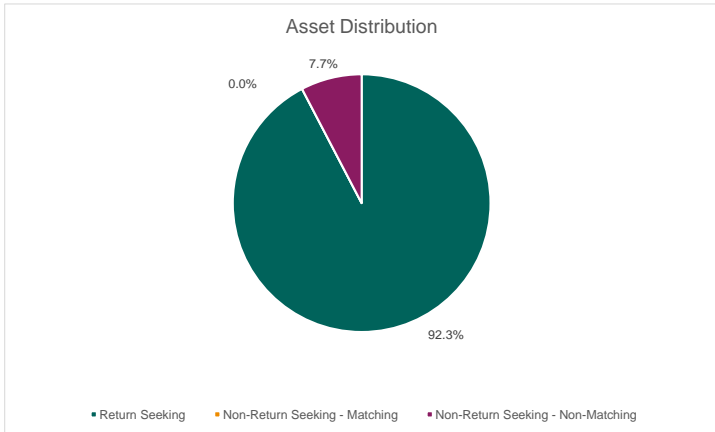
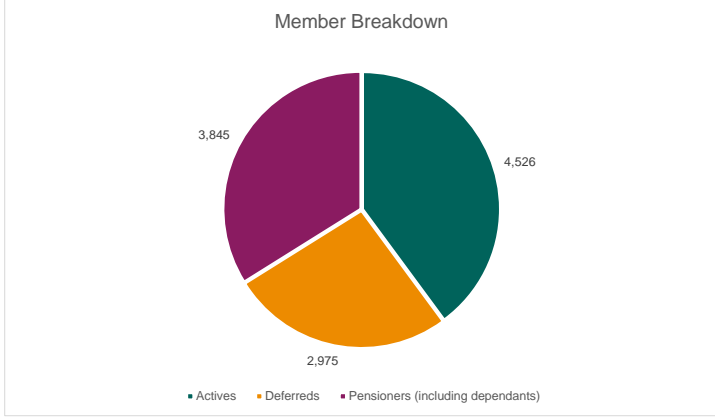
- Monday 26th June 2023

Author(s)

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Scottish Borders Pension Fund





Scottish Borders Pension Fund

Solvency Breakdown

Asset Shock

Assets are divided into the following classes:

Return seeking - Equity, Property, Infrastructure debt & other return seeking assets

Non-return seeking - All other assets

Return seeking assets are stressed by reducing them by 15%

New deficit

= (Pre-stress asset value - Post-stress asset value)

This deficit is then spread over 20 years of annual payments, and compared to the fund's pensionable payroll

	£m
Pre-stress asset value	£712.9
Return seeking assets	£658.3
Non-return seeking assets	£54.6
Post-stress asset value	£614.1
Return seeking	£559.6
Non-return seeking	£54.6
Reduction in asset value	£98.7
Equates to an annual amount (spread over 20 years)	£5.4
Total pensionable payroll	£80.6
Reduction to surplus as a percentage of pensionable payroll	6.6%
Deficit percentage of pensionable payroll (allowing for post-asset shock surplus)	Surplus

Employer Default Shock

Determine funding level on GAD's best estimate basis

If the fund is in deficit, non-tax backed deficits are allocated to tax-backed

The non-tax backed deficit is spread over 20 years and compared to the fund's pensionable payroll

	£m
Deficit on best estimate basis	£0.0
Proportion of deficit allocated to non-tax raising authorities	£0.0
Annual deficit payment (spread over 20 years)	£0.0
Deficit percentage of pensionable payroll	Surplus

Fund Open/Closed Open

SAB Funding Level 119.0%

Long Term Cost Efficiency

Deficit Recovery Period

Implied deficit recovery period calculated on a standardised market consistent basis

Recovery period (years)	Surplus
Ranking of fund (out of 11 open funds)	Not Applicable

Required Return

Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

Required return under best estimate basis	3.6%
Ranking of fund (out of 11 open funds)	9

Surplus Retention

A comparison of the average actual employer contribution rate with the contribution rate required to meet the cost of accruing future benefits (including allowance for surplus) calculated on the standardised market consistent basis

Actual contribution rate paid less SCR on best estimate basis (allowing for surplus)	-0.2%
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Return Scope

Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Expected return	5.1%
Required return	3.6%
Difference	1.5%
Ranking of fund (out of 11 open funds)	5

Deficit Recovery Plan

Consideration of how the deficit recovery plan has changed compared to 2017 valuation

Valuation	2017	2020
Deficit Recovery End Point	Surplus	Surplus
2018-21 Average Contribution Rate		18.0%
2021-24 Average Contribution Rate		18.3%
Increase in contributions		
Difference in Average Contribution Rate between 2018-21 and 2021-24		0.3%
Increase in deficit recovery end point (years)		Surplus

Minor inconsistencies in totals may occur due to rounding.



This document is intended only for discussions between GAD, SPPA, the relevant Local Authority and their actuary

Scottish Borders Pension Fund

Dashboard summary

This summary will be included as appendix to the full Section 13 report

Past service funding position - local funding basis

Funding level (assets/liabilities)	109.7%
Funding level (change since previous valuation)	-4.4%
Asset value used at valuation	£712,858,000
Value of liabilities	£650,083,530
Surplus (deficit)	£62,774,470
Discount rate(s)	3.8%
Assumed pension increases (CPI)	1.9%
Method of derivation of discount rate, plus any changes from last valuation	There is a 70% likelihood that the Fund's investments will return at least 3.8% over the next 20 years based on a stochastic asset projection.
Assumed Life expectancies for pensioners at age 65	
Average life expectancy for current pensioners - men currently age 65	20.9 years
Average life expectancy for current pensioners - women currently age 65	23.5 years
Average life expectancy for future pensioners - men currently age 45	21.9 years
Average life expectancy for future pensioners - women currently age 45	25.4 years

Past service funding position - SAB basis (for comparison purposes only)

Market value of assets	£712,858,000
Value of liabilities	£598,890,112
Funding Level on SAB basis (assets/liabilities)	119%
Funding level on SAB basis (change since last valuation)	n/a

Contribution rates payable

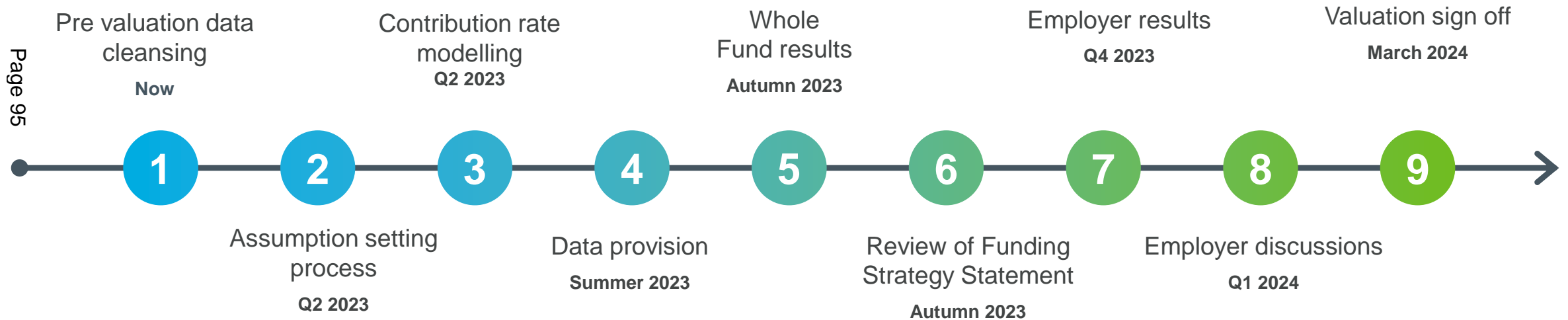
Primary contribution rate:	22.1%		
Secondary contribution rate (cash amounts each year in line with CIPFA guidance):			
Secondary contributions 2021/22	-£3,396,626		
Secondary contributions 2022/23	-£3,474,840		
Secondary contributions 2023/24	-£3,119,777		
Giving total expected contributions:			
Total expected contributions 2021/22 (£ figure based on assumed payroll)	£15,369,683	Based on assumed payroll of	£84,915,425
Total expected contributions 2022/23 (£ figure based on assumed payroll)	£15,783,104	Based on assumed payroll of	£87,140,021
Total expected contributions 2023/24 (£ figure based on assumed payroll)	£16,642,683	Based on assumed payroll of	£89,422,896
Average employee contribution rate (% of pay)	6.0%		
Employee contribution rate (£ figure based on assumed payroll)	£5,094,926	Based on assumed payroll of	£84,915,425

Additional information

Percentage of liabilities relating to employers with deficit recovery periods longer than 20 years	0.0%
Percentage of total liabilities that are in respect of employers participating in LGPS (S) who have no local or national taxpayer backing, nor a full guarantee, or other pass-through arrangement, with a body with such backing.	0.0%

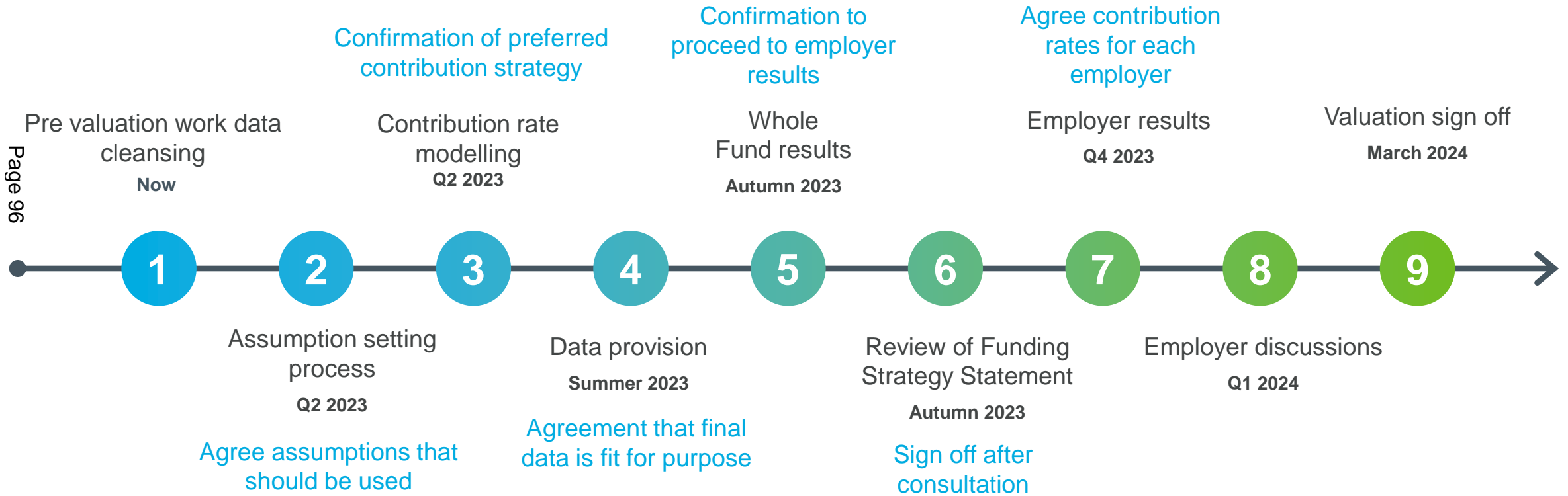
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The valuation process



A full valuation plan will be discussed and agreed with the Fund's officers

Decision making



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Highlighted in blue are the decisions the Fund has to take throughout the Valuation process

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