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PENSION FUND COMMITTEE AND PENSION BOARD TUESDAY, 12 DECEMBER 2023

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held VIA MICROSOFT TEAMS on TUESDAY, 12 DECEMBER 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.

N. MCKINLAY,
Director Corporate Governance,

1 December 2023

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minutes (Pages 3 - 10) Minutes of meetings held on 8 August 2023 and 22 September 2023 to be noted and signed by the Chairman. (Copies 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 meeting held on 25 August 2023. (Copy attached.)	2 mins
6.	Scottish Borders Pension Fund 2023 Actuarial Valuation (Pages 13 - 40) Consider presentation by Hymans Robertson LLP. (Copy attached.)	30 mins
7.	Progress on Delivery of Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund (Pages 41 - 46) Consider report by Chief Officer – Audit and Risk. (Copy attached.)	5 mins
8.	Pension Fund Risk Register Update (Pages 47 - 56) Consider report by Chief Officer – Audit and Risk. (Copy attached.)	5 mins
9.	Governance Review & Stewardship Code Action Plan (Pages 57 - 82) Consider report by Director – Finance and Procurement. (Copy attached.)	10 mins

10.	Business Plan Performance Update (Pages 83 - 92) Consider report by Director - Finance and Procurement. (Copy attached.)	5 mins
11.	Pension Fund Budget Monitoring to 30 September 2023 (Pages 93 - 98) Consider report by Director – Finance and Procurement. (Copy attached.)	10 mins
12.	Responsible Investment Metrics and Targets Report (Pages 99 - 112) Consider report by Isio. (Copy attached.)	20 mins
13.	Any Other Items Previously Circulated	
14.	Any Other Items which the Chairman Decides are Urgent	
15.	Items Likely To Be Taken In Private Before proceeding with the private business, the following motion should be approved:- “That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.”	
16.	Minutes (Pages 113 - 120) Private Sections of Minutes of Meetings held on 8 August 2023 and 22 September 2023 to be noted and signed by the Chairman. (Copy attached).	2 mins
17.	Pension Fund Investment and Performance Sub-Committee (Pages 121 - 126) To note the Private Section of the Minute of the Pension Fund Investment and Performance Sub-Committee meeting held on 25 August 2023. (Copy attached.)	2 mins
18.	Investment Performance Quarter to 30 September 2023 (Pages 127 - 176) 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), L. Douglas, C. Hamilton, D. Moffat, S. Mountford, S. Scott, J. Pirone (Pension Board), Mr D Bell (Pension Board), Mr A Daye (Pension Board), Mr M Drysdale (Pension Board), Mr M Everett (Pension Board), Ms K M Hughes (Pension Board) and Ms K Robb (Pension Board).

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

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

MINUTES of Special Meeting of the
PENSION FUND COMMITTEE AND
PENSION BOARD held in the Caledonian
Hotel, Edinburgh and via Microsoft Teams
on Tuesday, 8 August 2023 at 3.00 pm.

-
- Present:- Councillors D. Parker (Chairman), C. Hamilton, W. McAteer, D. Moffat, S. Mountford, S. Scott, Mr D. Bell, Mr A. Daye, and Mr M. Drysdale.
- Apologies:- Councillors P. Brown, and J. Pirone; and Ms K. Robb.
- In Attendance: Chief Executive, Director Finance and Procurement, Chief Officer Audit and Risk, and Democratic Services Officer (W. Mohieddeen).
- Also in Attendance: Mr C. Pringle, Mr A. Ross and Mr A. Singh (Isio); Mr J. Boyd (Audit Scotland); Mr M. Hamber, Mr B. Lee and Mr C. Lipton (Nuveen).

1. **PRIVATE BUSINESS**

DECISION

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business detailed in the Appendix to this Minute on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 8 of Part I of Schedule 7A to the Act.

2. **NATURAL CAPITAL MANDATE PROCUREMENT**

The Committee considered the Briefing Paper on natural capital mandates by Isio.

3. **NUVEEN GLOBAL TIMBERLAND FUND**

The Committee considered a presentation by Nuveen Natural Capital.

The meeting concluded at 4.45 pm.

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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 Friday,
22 September 2023 at 1.00pm.

Present:- Councillors D. Parker (Chairman), C. Hamilton, D. Moffat, S. Mountford, J. Pirone, S. Scott, Mr D. Bell (from para 3), Mr A. Daye, Mr M. Drysdale, Mr M. Everett and Ms K M Hughes

Apologies:- Councillors P. Brown, W. McAteer, and Ms K Robb,

In Attendance: Director – Finance and Procurement, Chief Officer – Audit and Risk, HR Shared Services Manager, Democratic Services Officer (D. Hall).

Also in Attendance: Mr A Ross, Mr A Singh, and Mr J Solanki (Isio), Mr J Boyd and Ms S Harold (Audit Scotland)

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 22 June 2023.

DECISION

NOTED for signature by the Chairman.

2. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**

There had been circulated copies of the Minute of the Meetings of the Pension Fund Investment and Performance Sub-Committee held on 26 June 2023.

DECISION

NOTED for signature by the Chairman.

MEMBER

Mr David Bell joined the meeting.

3. **RISK REGISTER UPDATE**

There had been circulated copies of a report by the Chief Officer – Audit and Risk which provided an update on the refresh of the Pension Fund Risk Register. Effective Risk Management was one of the foundations of effective governance of the Pension Fund. It required a coherent approach to the management of risks that it faced every day through the identification, analysis, evaluation, control and monitoring of risks linked to the business plans and activities of the Pension Fund. The “Managing Risk in the Local Government Pension Scheme” published by CIPFA provided helpful guidance on the process. At the Joint meeting of the Pension Fund Committee and Pension Fund Board on 21 March 2023, the proposal to refresh the Pension Fund Risk Register and the associated timetable were agreed, specifically to: (a) Ensure the risks are appropriate, easily measurable and within their control, (b) Incorporate the relevant risk management recommendations made by the Independent Consultant in December 2022, and by Internal Audit and External Audit during the year 2022/23, (c) Reduce the number of risks on the Risk Register to a manageable amount, and (d) Amend the categorisation of risks to within the Categories: Funding; Investment; Administration; Governance; and Operational. The report set out proposals on the refreshed Pension Fund Risk Register the report. The Chief Officer – Audit and Risk, Ms Jill Stacey, presented the report.

Members welcomed the proposed amalgamation of risks as a sensible and prudent course of action.

DECISION

AGREED to:-

- (a) approve the refreshed Pension Fund Risk Register, as contained in Appendix 2 to the report, arising from the proposals to amalgamate and re-categorise the risks on a more manageable scale; and**
- (b) note that the formal full review of the risks in the refreshed Pension Fund Risk Register would continue, and quarterly updates would be presented to the Committee and Board.**

4. FINAL ANNUAL REPORT AND ACCOUNTS 2022/23

4.1 With reference to paragraph 3 of the Minute of the meeting held on 22 June 2023, there had been circulated copies of a report by the Director – Finance and Procurement which provided an opportunity to scrutinise the final Annual Report and Accounts for the Pension Fund for 2022/23 prior to their submission to the Audit Committee and then Scottish Borders Council for signature. Also circulated with the report included the annual Audit Report from Audit Scotland, the annual report, and accounts for the year to 31 March 2023, a letter from Mr John Boyd, Audit Scotland, and a Letter of Representation (ISA 58) from the Director – Finance and Procurement. The report outlined that the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, the list of those were contained in the report. The final Annual Report and Accounts contained in Appendix 1 to the report fully met those requirements. Audit Scotland had completed their audit and had provided an unqualified independent audit opinion. The Scottish Borders Council's Pension Fund Annual Audit Report highlighted four new recommendations and followed up one recommendation from previous audits. Actions plans had been agreed for each of the recommendations. The report was presented to members of both the Pension Fund Committee and the Pension Fund Board for them to recommend the final Annual Report and Accounts for 2022/23 (the Annual Report) for approval prior to submission to Scottish Borders Council for signature.

4.2 The Chairman welcomed Mr Boyd and Ms Stephanie Harold of Audit Scotland to the meeting to present their report. Mr Boyd expressed his thanks to the Director – Finance and Procurement for her support during the audit process. It was highlighted that whilst the report was listed as a draft, it would be finalised when the accounts were signed following full approval. The final version would be then published on the Audit Scotland website. The audit which had been completed had focused on financial management; financial sustainability; vision, leadership, and governance; the effective use of resources to improve outcomes. Audit Scotland intended to issue an unmodified audit opinion, which indicated that auditors were content that the accounts were free from material misstatements. The audit which had been carried out was risk-based, which meant that the scope of the audit was based on where there was an identified risk of material misstatement. Audit Scotland undertook its audit based on materiality, based on a percentage of gross assets. There were a number of adjustments which were below the reporting threshold and Audit Scotland was comfortable that they remained unadjusted. Direct testing was undertaken regarding the administration of the Fund regarding new starters and general administrative aspects. Mr Boyd explained that the Fund was not unique in the context of its declining investment performance and highlighted that wider economic conditions had impacted upon other Local Government Pension Schemes (LGPS) as well. Regarding the wider financial sustainability of the

Fund, it was acknowledged that the Fund was subject to a triennial valuation as at 31 March 2023. The Fund was reporting a net asset position, which indicated that the value of assets held was higher than actuarial valuation of its liabilities. That position was consistent with the approach taken by other LGPS across Scotland. Mr Boyd highlighted the importance of vision, leadership, and governance to the Fund. Ensuring that a robust training programme was in place and followed was essential to the proper management of the Fund. Mr Boyd stressed that the Committee was unique in its demands, and that Members were required to be kept up to date on key developments. An agreed Action Plan, which included several key aspects of work to be undertaken, was contained within the report. Good progress had been made following up on the prior year recommendations, and Mr Boyd highlighted the importance of implementing the Stewardship Code and other recommendations. Management had agreed to implement the use of an action tracker to ensure that no actions were not lost. Members welcomed the report and expressed their thanks to Audit Scotland for undertaking their work. In response to a question regarding whether there was an issue with Members not completing their required training, Mrs Douglas explained that there were some potential timing issues regarding the completion of training. Training matters were being addressed and a log would be kept, which would ensure that all Members had undertaken the mandated training.

DECISION

AGREED to approve to approve the Annual Report and Accounts for 2022/23 for Officer signature and Council approval.

5. PENSION FUND BUDGET MONITORING TO 30 JUNE 2023

With reference to paragraph 9 of the Minute of the Meeting held on 22 June 2023, there had been circulated copies of a report by the Director – Finance and Procurement which provided an updated position of the Pension Fund budget to 30 June 2023 including projections to 31 March 2024. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they are to be measured against. To ensure the Fund met the standards a budget was approved on 22 June 2023 following the recommendations within the CIPFA accounting guidelines headings. The report was the first quarterly monitoring report of the approved budgets. The total expenditure to 30 June 2023 was £1.596m with a projected total expenditure of £6.967m against a budget of £6.953m. That projected a budget variance of £14k which represented the additional actuary costs for contribution rate modelling. The Director presented the report and highlighted that investment management fees were charged on a quarterly basis in arrears.

DECISION

AGREED:-

- (a) to note the actual expenditure to 30 June 2023; and**
- (b) the projected out-turn as the revised budget.**

6. COMMUNICATION POLICY REVIEW

With reference to paragraph 4 of the Minute of the meeting held on 15 September 2022 there had been circulated copies of a report by the Director – People, Performance and Change provided an update on the review of forms and communication, including annual benefit statements. In line with the Pension Fund business plan the Policy should be reviewed on an annual basis. The report discharged that requirement. Appendix 1 to the report contained the Communication Policy, there had been no changes made to the policy following review. When the review was carried out last year there was an addition

made for the Fund to produce an update newsletter in June and December, that had not been achieved to date and was something that officers would look to address this year. The Pension Fund website continued to prove to be a useful resource and had been visited on a regular basis. The website continued to be updated to reflect the current Regulations and any relevant documents or news stories were published accordingly. Additionally, the link to the Member Self Service portal had been added. The Pensions Administration team had carried out a review of the supporting information published along with the Annual Benefit Statements. Officers continued to encourage scheme members to sign up to the Members Self Service portal, with wording provided to all Fund Employers to use when advising that the Annual Benefit Statements were published ahead of the deadline date. Work continued to review processes and associated Forms making use of emerging digital technologies wherever possible. The HR Shared Services Manager, Mr Ian Angus presented the report and highlighted that it had not been possible to issue the update newsletter in line with the required timescales. The newsletter had been published in December, but there had been no follow up publication. Councillor Mountford, seconded by Councillor Moffat, proposed that the requirement to publish an update newsletter be changed from biannual to annual. Members unanimously agreed the proposal. Mrs Douglas highlighted that all of the required paperwork associated with the internal Pension Investment Manager post had been completed, and that it was expected to be advertised in the coming weeks. In response to a question regarding the distribution of the newsletter, Mr Angus explained that it would be sent out via email and published on the website. In response to a question regarding capacity, Mrs Douglas confirmed that issues related to capacity stemmed from staffing issues.

DECISION

AGREED to:

- (a) note the Communication Strategy as set out in Appendix 1 to the report;**
- (b) note the website performance;**
- (c) note that work had continued on the review of Forms and the Annual Benefit statement documentation has been reviewed; and**
- (d) amend the requirement to publish the update newsletter from biannually to annually.**

7. RESPONSIBLE INVESTMENT METRICS

There had been circulated copies of a Responsible Investment Project Plan from Isio. The Chairman welcomed Mr Andrew Singh of Isio to present the plan. Mr Singh explained that the Plan was similar to one that had been circulated 12 months prior. The different blocks in the Plan represented key work that the Committee had to consider as part of its responsible investment considerations. Mr Singh highlighted that work on the UK Stewardship Code submission was ongoing and noted that a report was to be presented later in the meeting. The implementation statement, required as part of the UK Stewardship Code, was being finalised and would form part of the submission. Quarter 3 2023 would involve the assessment of the RI metrics and targets and would assess whether there had been improvements compared to the previous year. Quarter 1 2024 would involve an annual review of investment manager's sustainability efforts. Mr Singh highlighted that the consideration at Quarter 2 2024 would be on TCFD and the associated reporting requirements. TCFD remained under consultation in England and Wales, and it was unclear when reporting requirements would come into force.

DECISION

NOTED.

8. REVIEW OF UK STEWARDSHIP CODE (2022/23 SUBMISSION)

With reference to paragraph 7 of the Minute of the meeting held on 15 September 2022 there had been circulated copies of a report by the Director – Finance and procurement which reviewed and sought approval of the Stewardship Code application for 2022/23, for submission to the Financial Reporting Council, by 31 October 2023. The report explained that the Stewardship Code is not a statutory requirement however both the UK Ministry of Housing, Communities & Local Government and the TPR recommended that administering authorities of LGPS funds should become signatories to the code. The Committee agreed on 15th Sept 2021 that the Fund should apply to become signatories. The Fund was successfully confirmed as a signatory, by the Financial Reporting Council (FRC) in February 2023, following a successful submission the previous October. To maintain ongoing status as a signatory, annual submissions, detailing progress, and further improvement, were required. A draft for the year 2022/23 had been produced for submission by 31st October 2023, subject to the Committee's approval. The draft application was contained in Appendix 1 to the report. The submission responded to: (a) feedback received from the FRC regarding its last (successful) submission, outlining areas for further improvement, and (b) the FRC's guidance for 2022/23 applications, stipulating an increased emphasis on strong examples of stewardship activity and outcomes. Work by Isio, preparing an Implementation Statement to support the Fund's preparation for TCFD reporting, would also provide valuable evidence to support this submission. It was intended that, once completed, the data from this exercise would be included, ahead of the submission date to the FRC, of 31st October.

DECISION

AGREED:-

- (a) to approve the proposed application for the Fund to maintain its signatory status to the Stewardship Code as contained in Appendix 1 to the report;**
- (b) the submission of the application to Financial Reporting Council;**
- (c) that the Director of Finance and Procurement be given delegated authority to make amendment to the submission, after the Committee's approval of the documents, to accommodate additional evidence being collected and prepared by Isio; and**
- (d) to note that blue highlighting within the draft submission denoted references to the Implementation Statement evidence that would be integrated into the report when it was completed. That was for illustrative evidence and would not materially change the information in the main body of the submission.**

9. INFORMATION UPDATE

There had been circulated copies of a briefing paper by the Director – Finance and Procurement which provided an update on a number of areas which were being monitored and areas where work was progressing. Full reports on individual areas would be tables as decisions and actions as required. The Director – Finance and Procurement and Mr Ian Angus presented the update and responded to Members questions. In response to a question regarding the PSLA annual conference in Manchester, Mr Solanki of Isio explained that the annual conference covered a much wider subject matter than other, more investment focused, conferences. Regarding training, Mr Solanki explained that the feedback from a training day held at SBC Headquarters in May had been positive and suggested that an annual session could prove useful.

**DECISION
NOTED**

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. **MINUTE**
The Committee considered the Private Minute of the Meeting held on 22 June 2023.
12. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**
The Committee considered the Private Minute of the Meeting of the Pension Fund Investment and Performance Sub-Committee held on 26 June 2023.
13. **Q2 2023 INVESTMENT PERFORMANCE REPORT**
The Committee noted the Quarter 2 Investment Performance report by Isio.
14. **MACQUARIE INFRASTRUCTURE DEBT (SUB-INVESTMENT GRADE) FUND UPDATE**
The Committee considered noted an update provided.

The meeting concluded at 2.30 pm.

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

MINUTES of Meeting of the PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE held in the Waldorf Astoria Hotel, Edinburgh and via Microsoft Teams on Friday, 25 August 2023 at 2.00 pm

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

1. **MINUTE**

There had been circulated copies of the Minute of the meeting held on 26 June 2023.

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 26 June 2023.

4. **INVESTMENT MANAGER BRIEFING PAPER**

The Committee noted a Manager Briefing Paper by Isio.

5. **PRESENTATION – LGIM**

The Committee noted a presentation by LGIM.

6. **PRESENTATION – MORGAN STANLEY**

The Committee noted a presentation by Morgan Stanley.

DECLARATION OF INTEREST

Councillor Scott declared an interest in the following item of business in terms of Section 5 of the Councillors Code of Conduct and left the meeting during the discussion.

7. **PRESENTATION – BAILLIE GIFFORD**

The Committee noted a presentation by Baillie Gifford.

The meeting concluded at 5.00 p.m.

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Scottish Borders Pension Fund

2023 Actuarial Valuation

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Agenda Item 6

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Agenda

- Background to the actuarial valuation
- What's happened since 2020?
- 2023 valuation results
- Contribution rate setting
- Funding Strategy Statement (FSS)



Julie West FFA

julie.west@hymans.co.uk



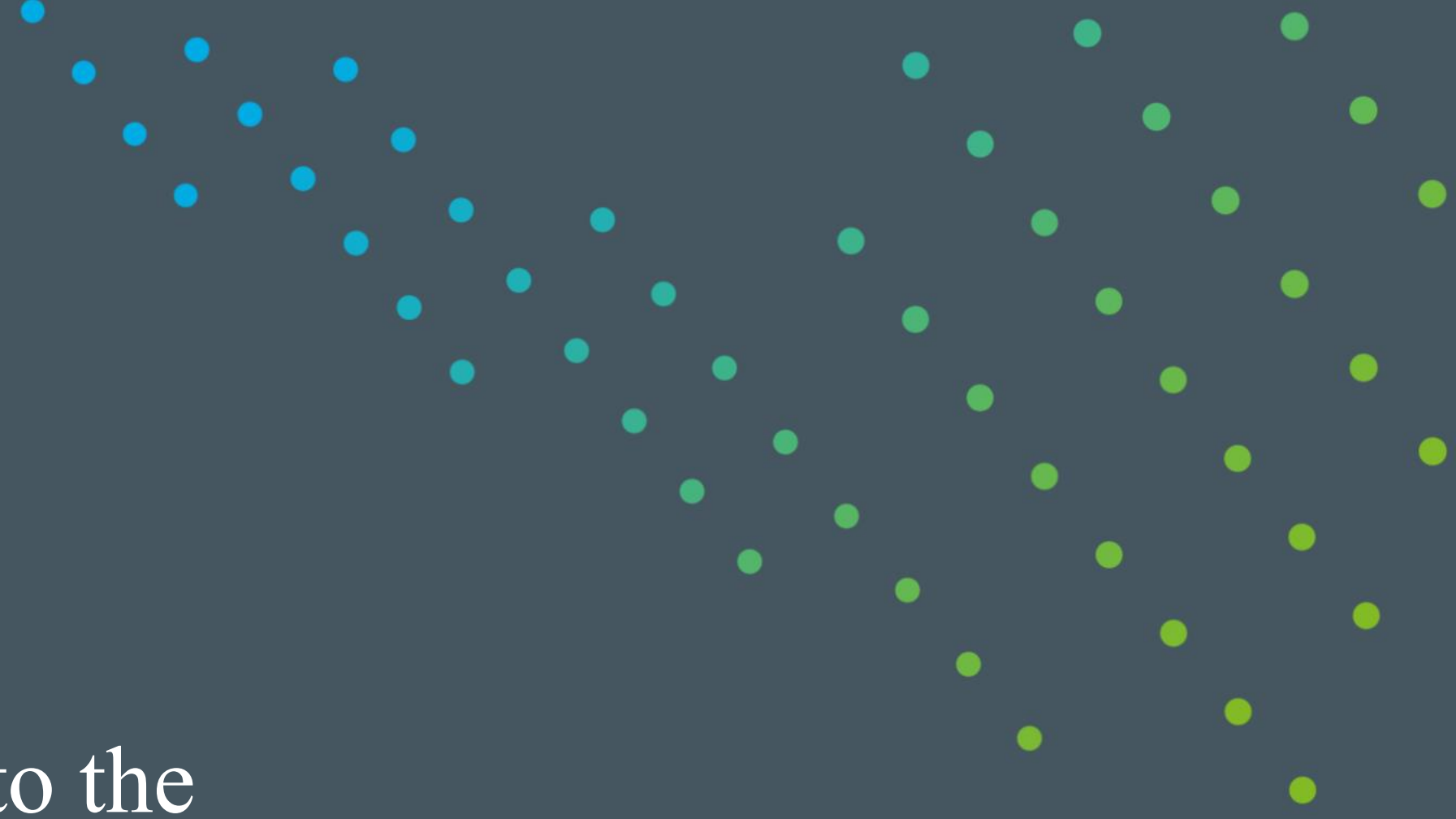
Jamie Baxter

jamie.baxter@hymans.co.uk

Please ask questions as we go



Background to the actuarial valuation



Why we do a valuation?



Calculate employer contribution rates



Compliance with legislation



Analyse actual experience vs assumptions



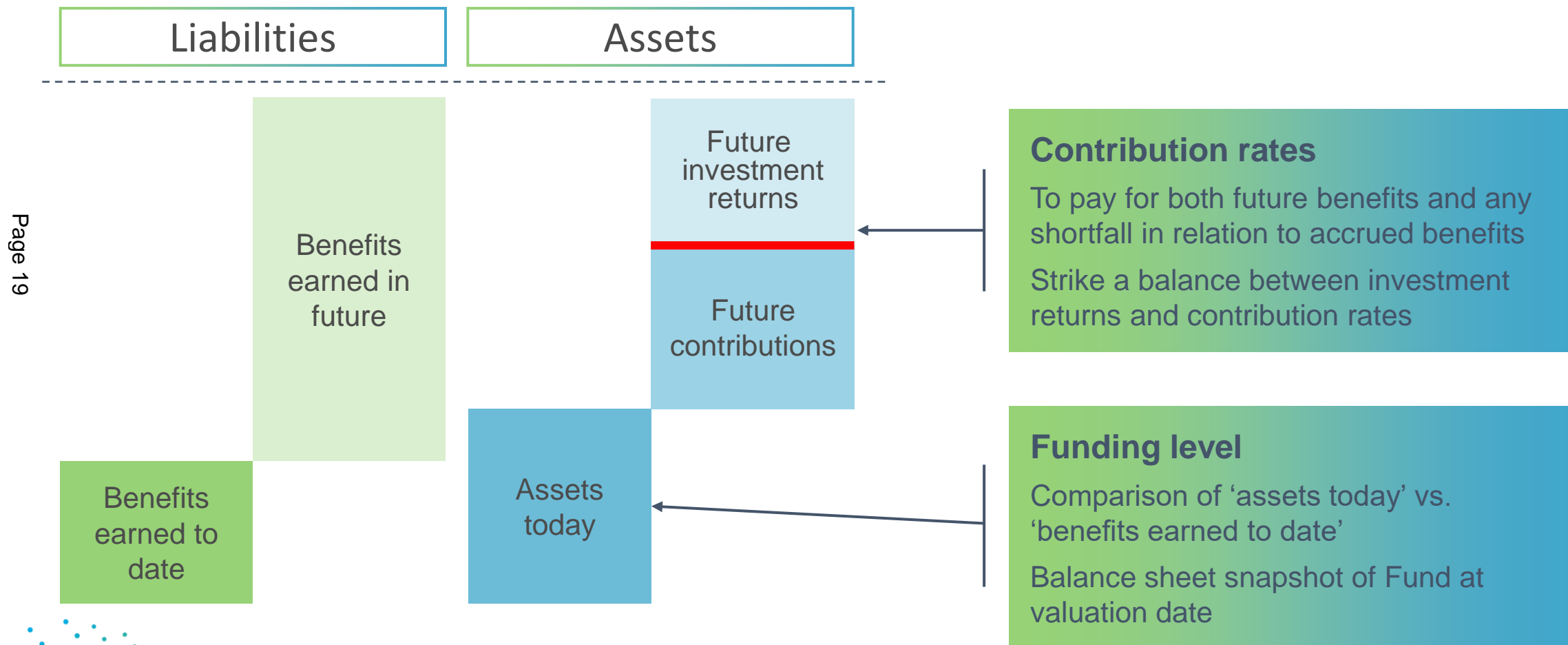
Review Funding Strategy Statement



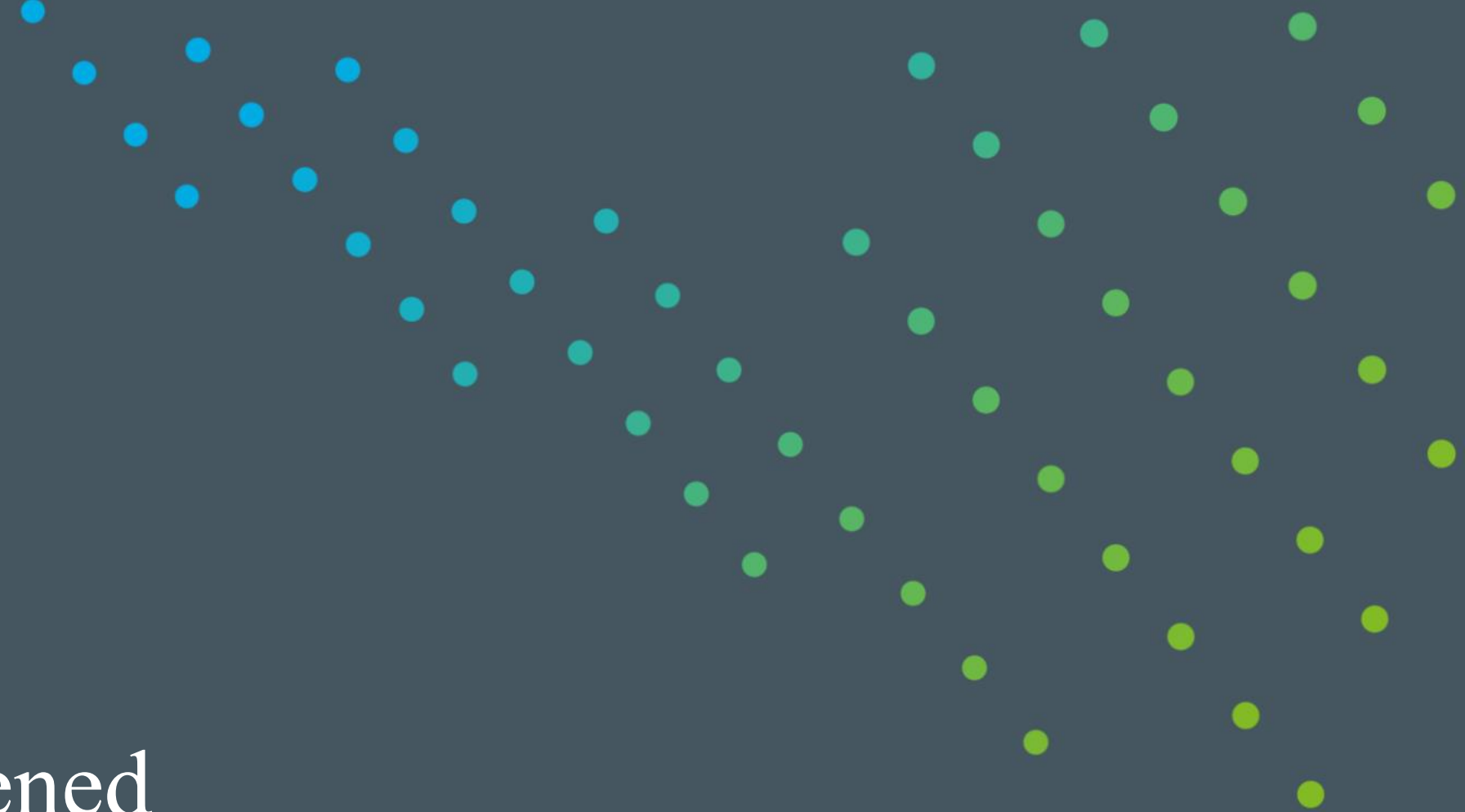
Part of continual 'health check' on fund solvency

The triennial valuation is a key risk management exercise for the Fund

Background to the valuation



What's happened since 2020?



Wider funding context

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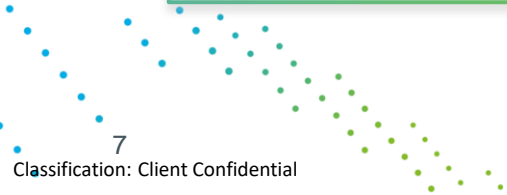
Significant asset returns in first half of inter-valuation period, due to bounce-back from Covid-19 market fall in February-March 2020.

Material fall in liability values in second half of inter-valuation period due to rising interest rates.

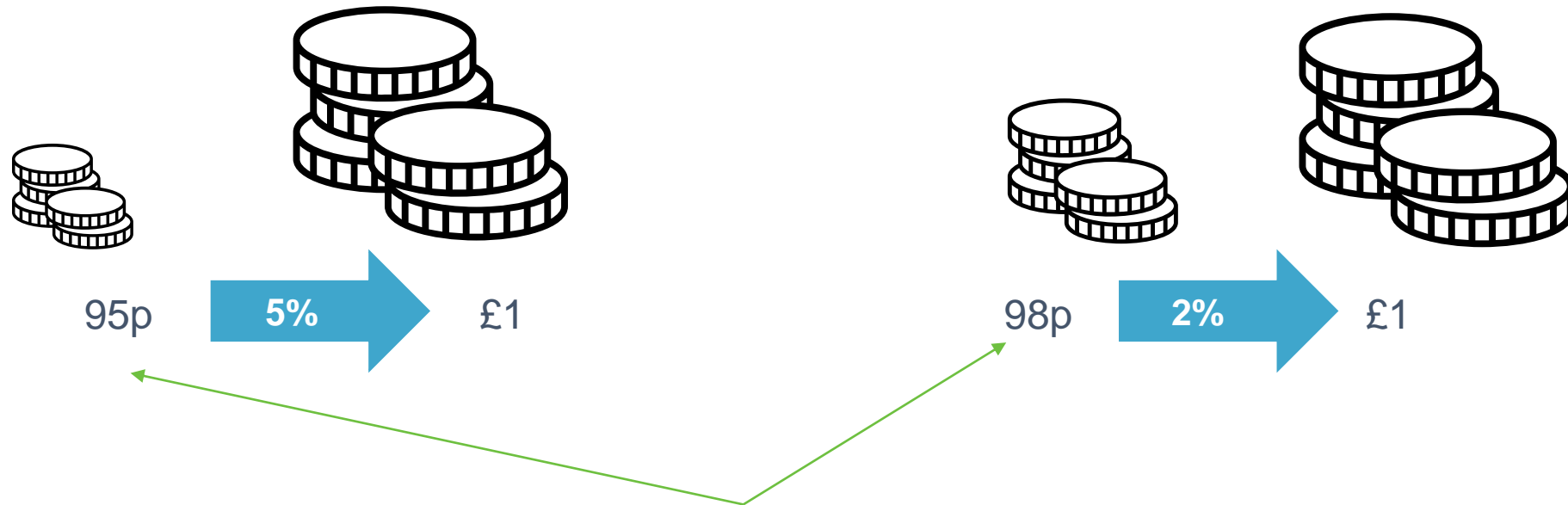
Asset & liability progression – 2020 to 2023



Source: Hymans Robertson sample LGPS fund



Impact of future investment returns

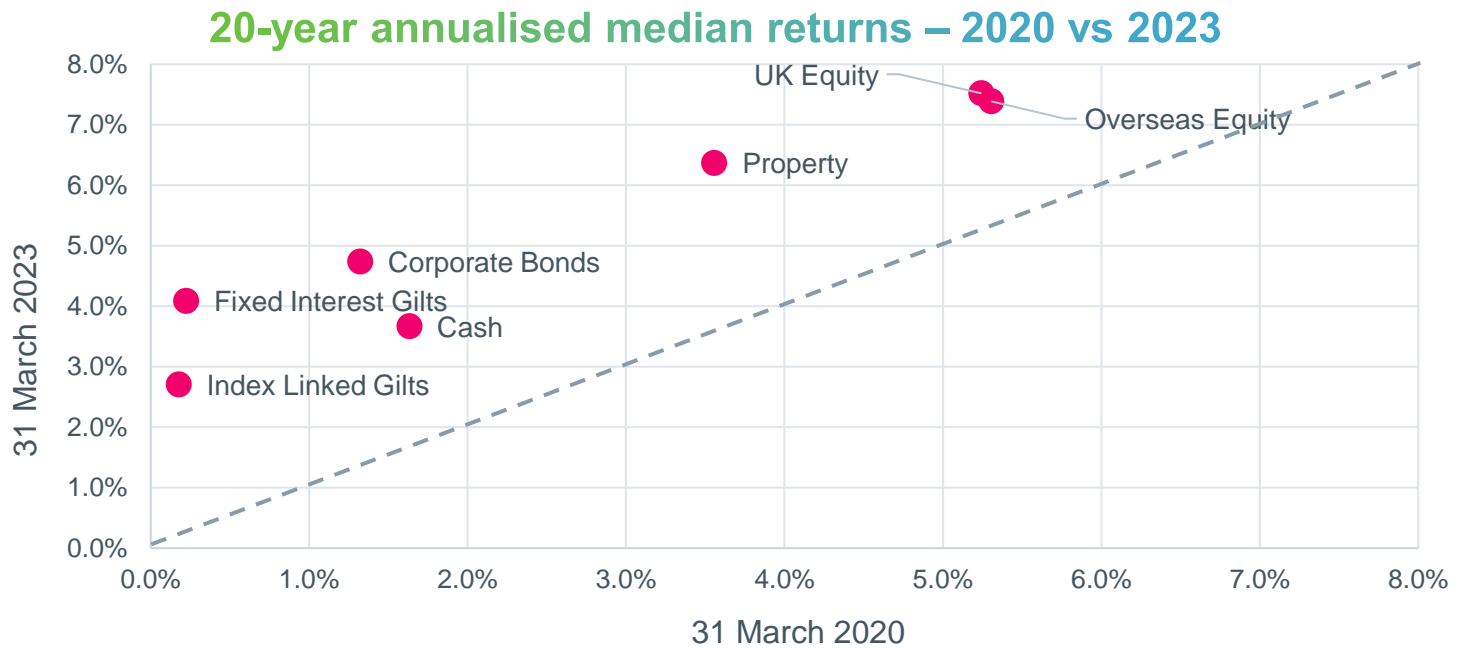


Different 'present value' of future payment under different future investment return assumptions

Investment return assumption places a 'present value' on future benefit payments

Future investment return expectations

- Used to project forward asset value in modelling
- Same model and approach as used for 2020 valuation
- **Higher return expectations** now compared to 2020
- Result of increases in global interest rates



Positive impact on 2023 funding valuation results

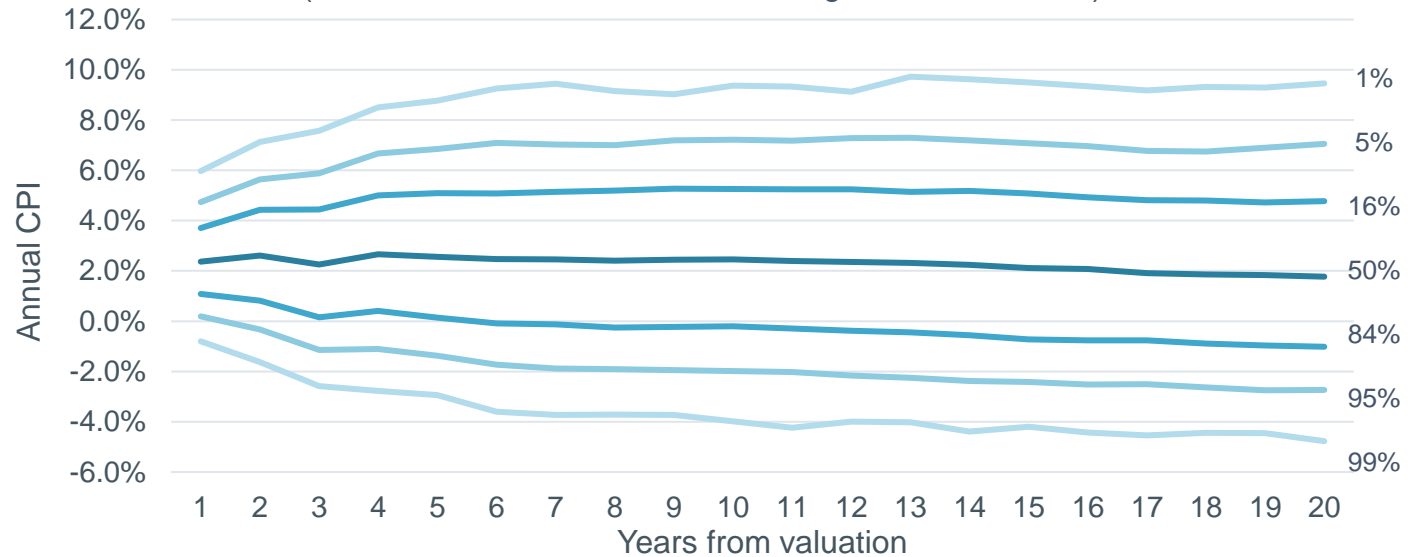


Benefit increases

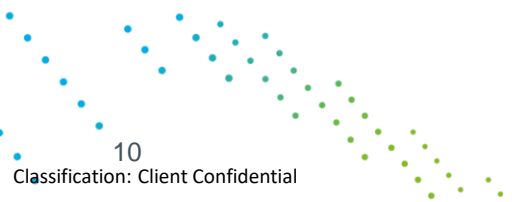
- LGPS benefits increase with CPI inflation
- Used to project forward benefits and contributions in modelling
- Similar approach as the 2020 valuation
- **Ongoing uncertainty around high inflation** captured via risk-based approach

Distribution funnel for CPI inflation at 31 March 2023

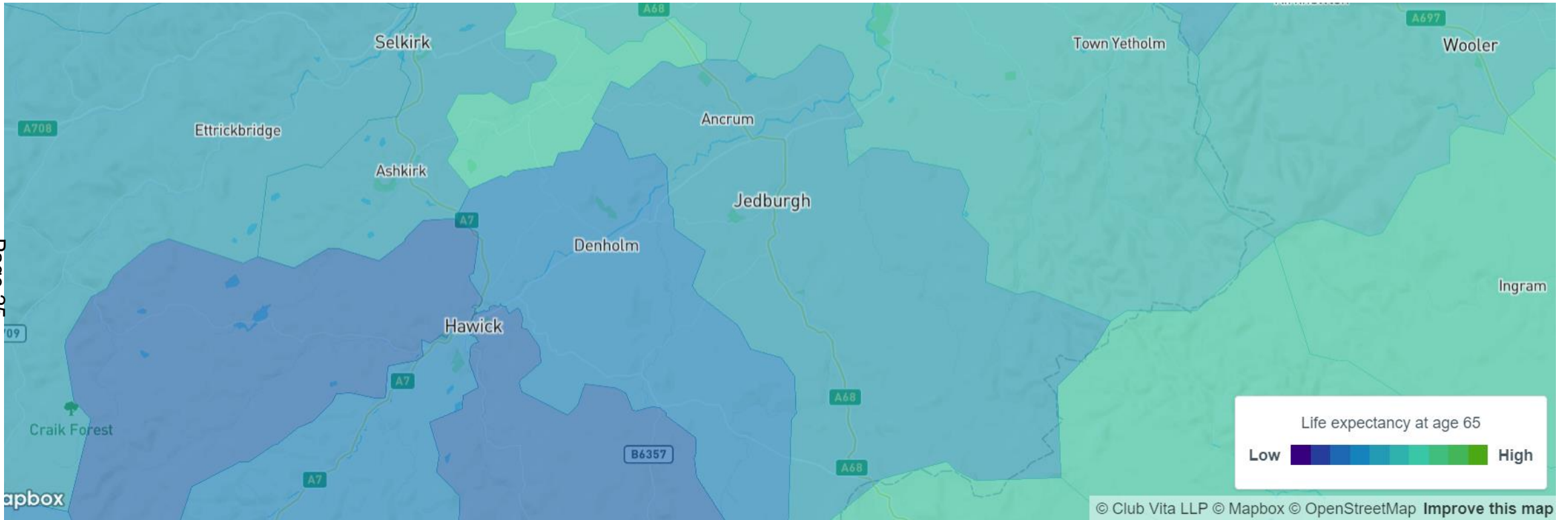
(RHS %'s are likelihood of inflation higher than this level)



Negative impact on 2023 funding valuation results



Longevity trends



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Reliances and Limitations

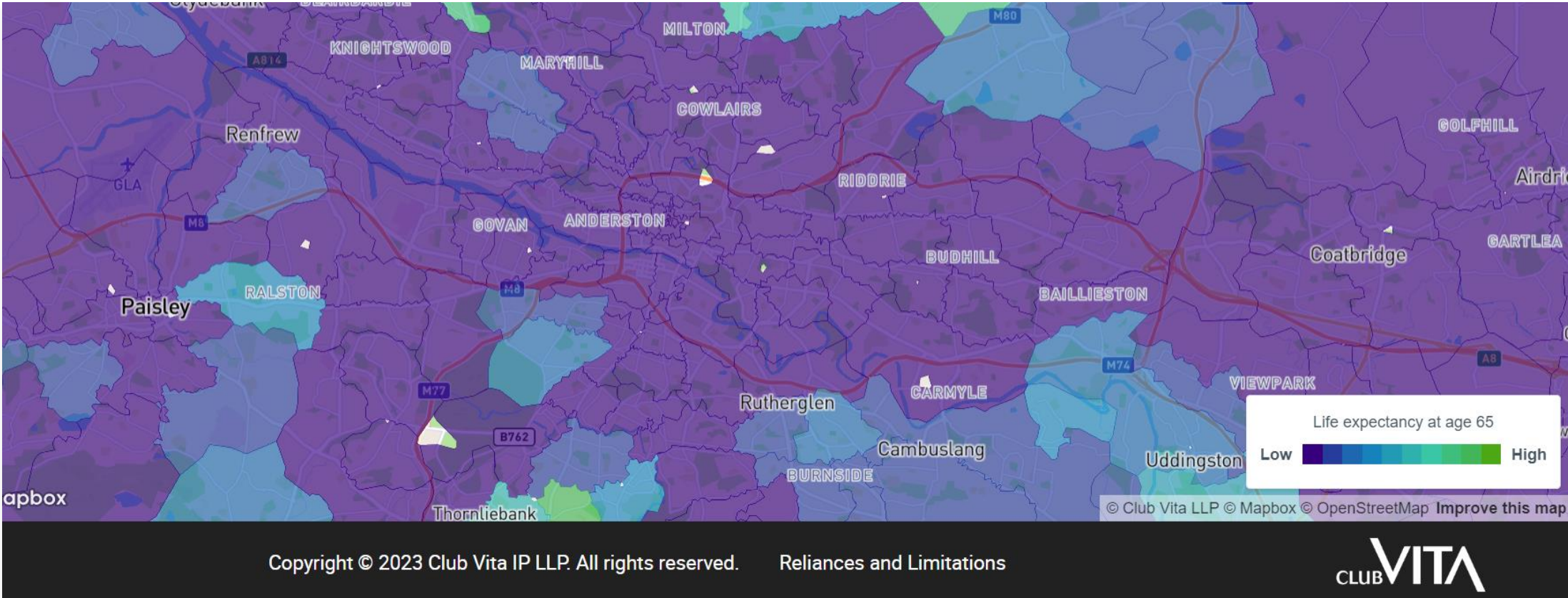


Assumptions tailored specifically to Scottish Borders Council Pension Fund members



Longevity trends

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“The Glasgow effect”

Key valuation assumptions at 2023

Financial assumption	31 March 2023	Required for	31 March 2020
Discount rate	5.2% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 80% likelihood of returning above the discount rate.	3.8% pa*
Benefit increases/CARE revaluation	2.3% pa	To determine the size of future benefit payments.	1.9% pa
Salary increases	3.0% pa	To determine the size of future final-salary linked benefit payments.	2.6% pa

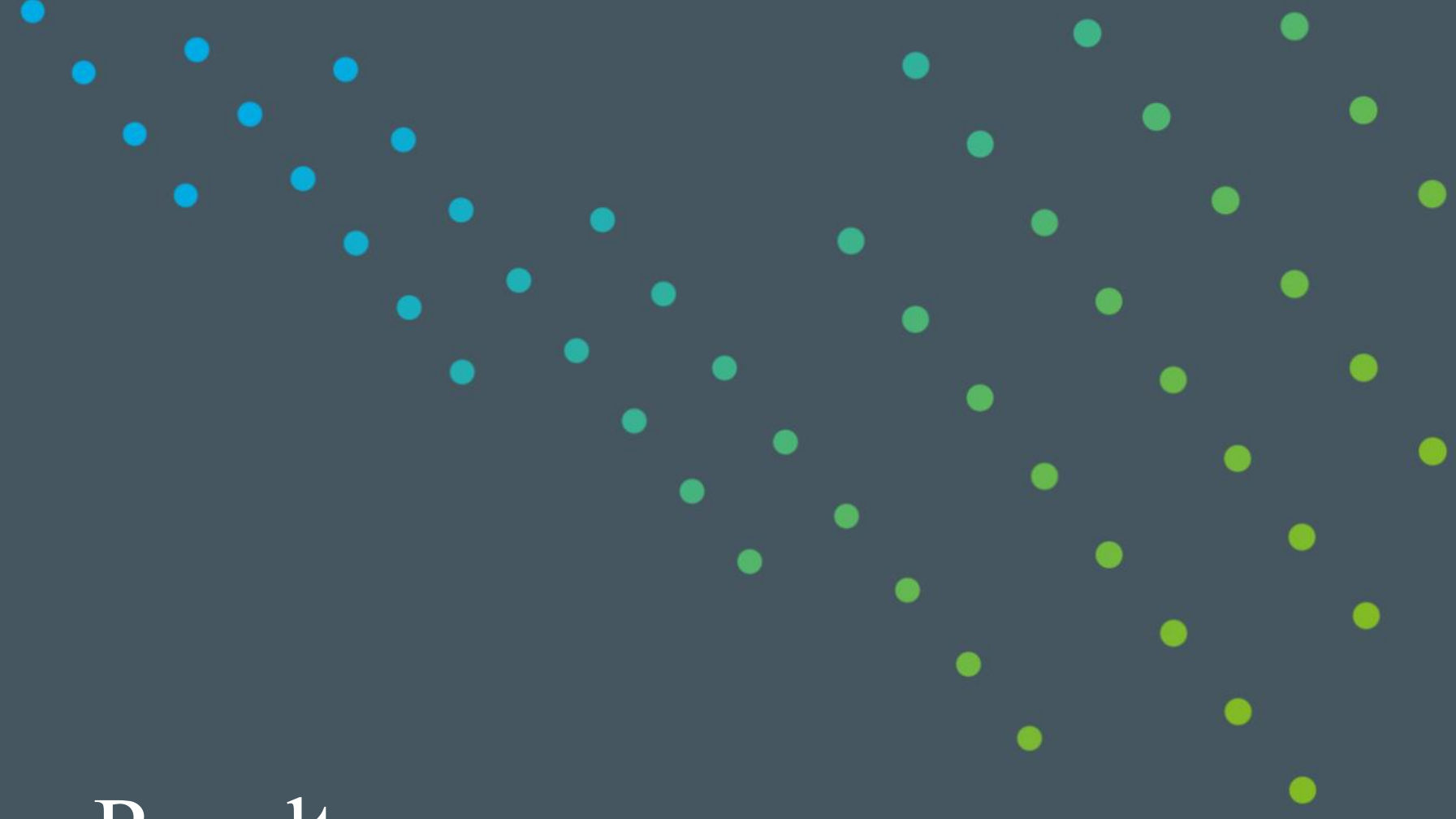
*Based on a 70% likelihood of success in 2020

	31 March 2023	31 March 2020
Male pensioner	20.6 years	20.9 years
Male non-pensioner	21.2 years	21.9 years
Female pensioner	23.3 years	23.5 years
Female non-pensioner	24.9 years	25.4 years

Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45.

Robust and evidenced based approach to agreeing assumptions

2023 Valuation Results



Whole Fund funding level at 31 March 2023

Valuation Date	31 March 2023	31 March 2020
Past Service Liabilities	(£m)	(£m)
Employees	238	259
Deferred Pensioners	91	94
Pensioners	320	296
Total Liabilities	649	650
Assets	866	713
Surplus/(Deficit)	218	63
Funding Level	134%	110%

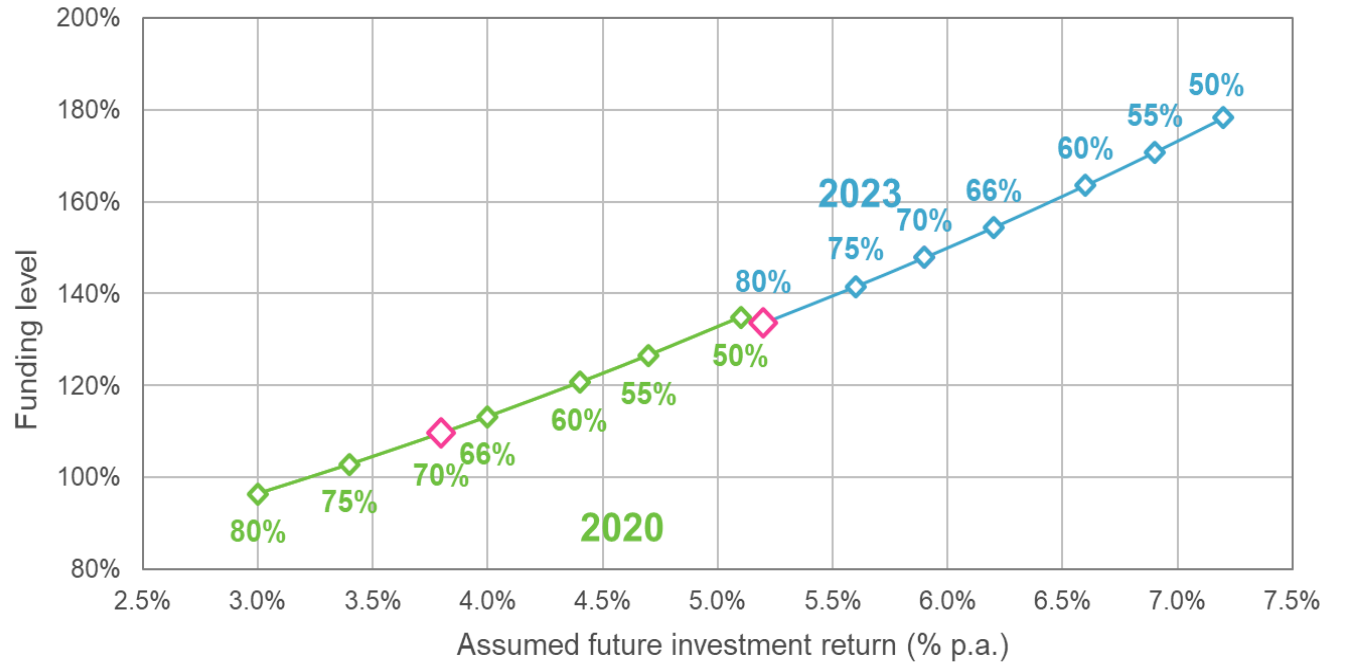
Please note that numbers may not sum due to rounding

The reported funding level does not directly drive employers' contribution rates



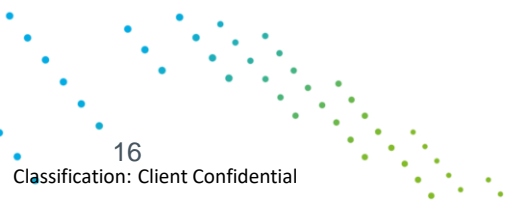
Measuring the funding position today

- The funding level is 100% if future investment returns are c3.2% pa.
- The likelihood of the Fund's assets yielding at least this return is around 95%.
- The comparator at 2020 was a return of 3.2% which had a likelihood of 76%.
- The funding position is stronger at 2023 than 2020.



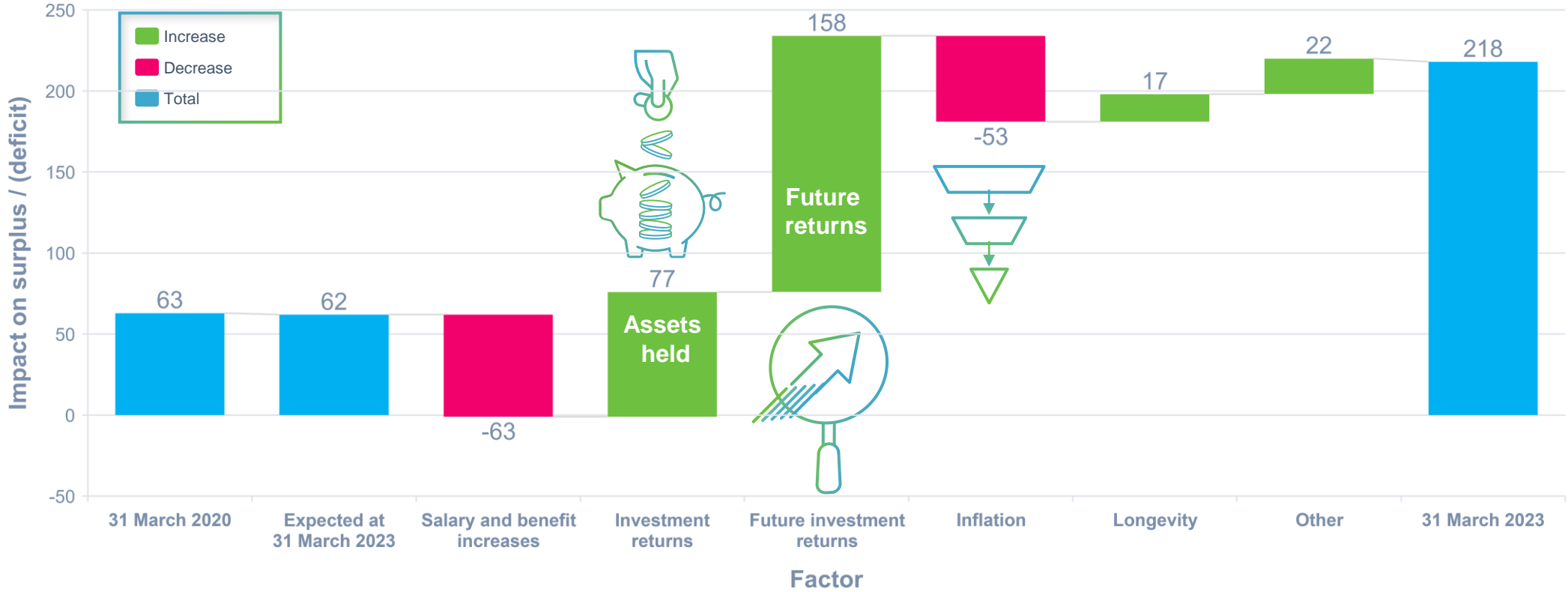
The pink diamonds show the 2020 and 2023 funding levels, with their associated likelihoods of success.

Positive impact on 2023 funding valuation results



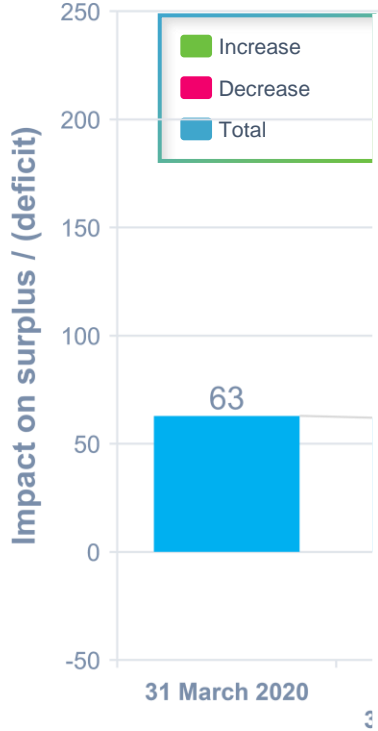
Changes since the last valuation

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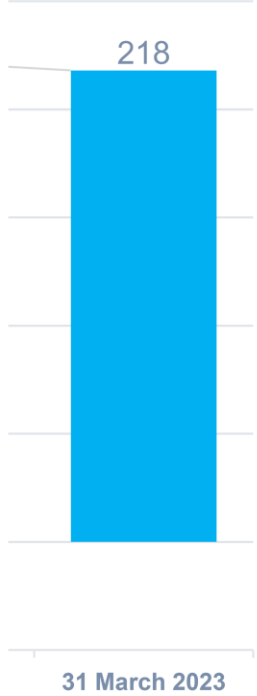


In summary....

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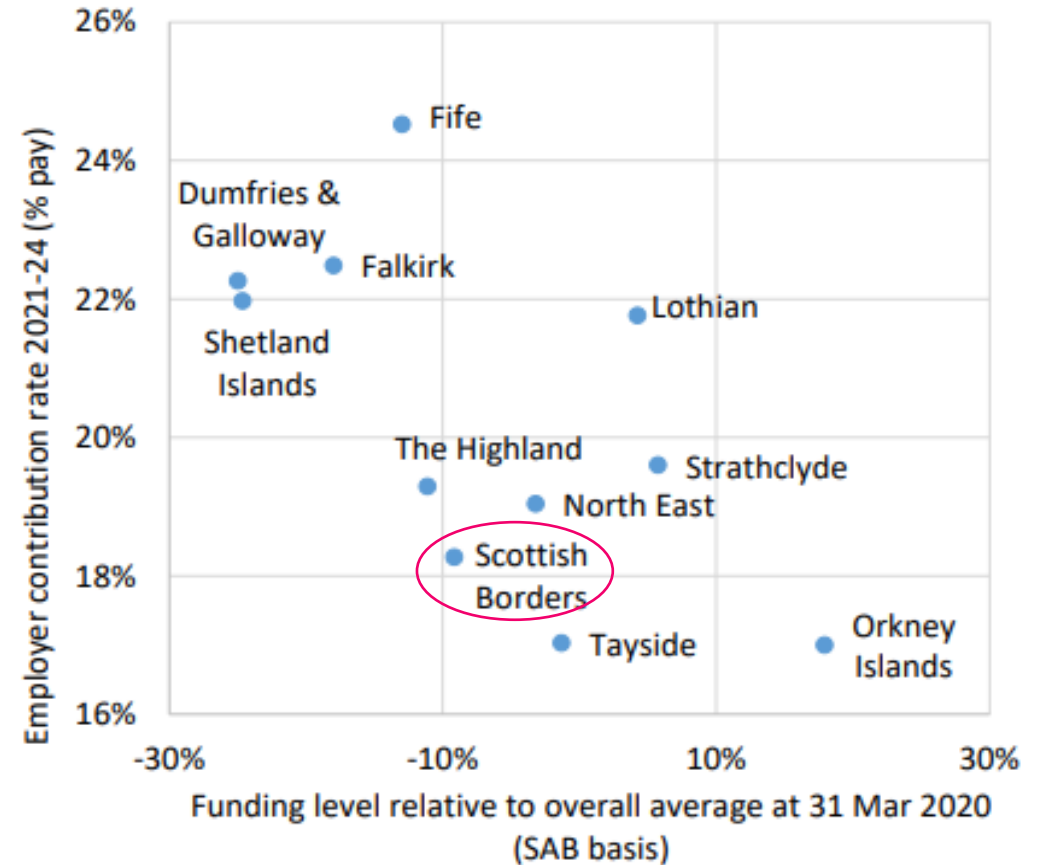


+
All other factors have a combined impact of £3m



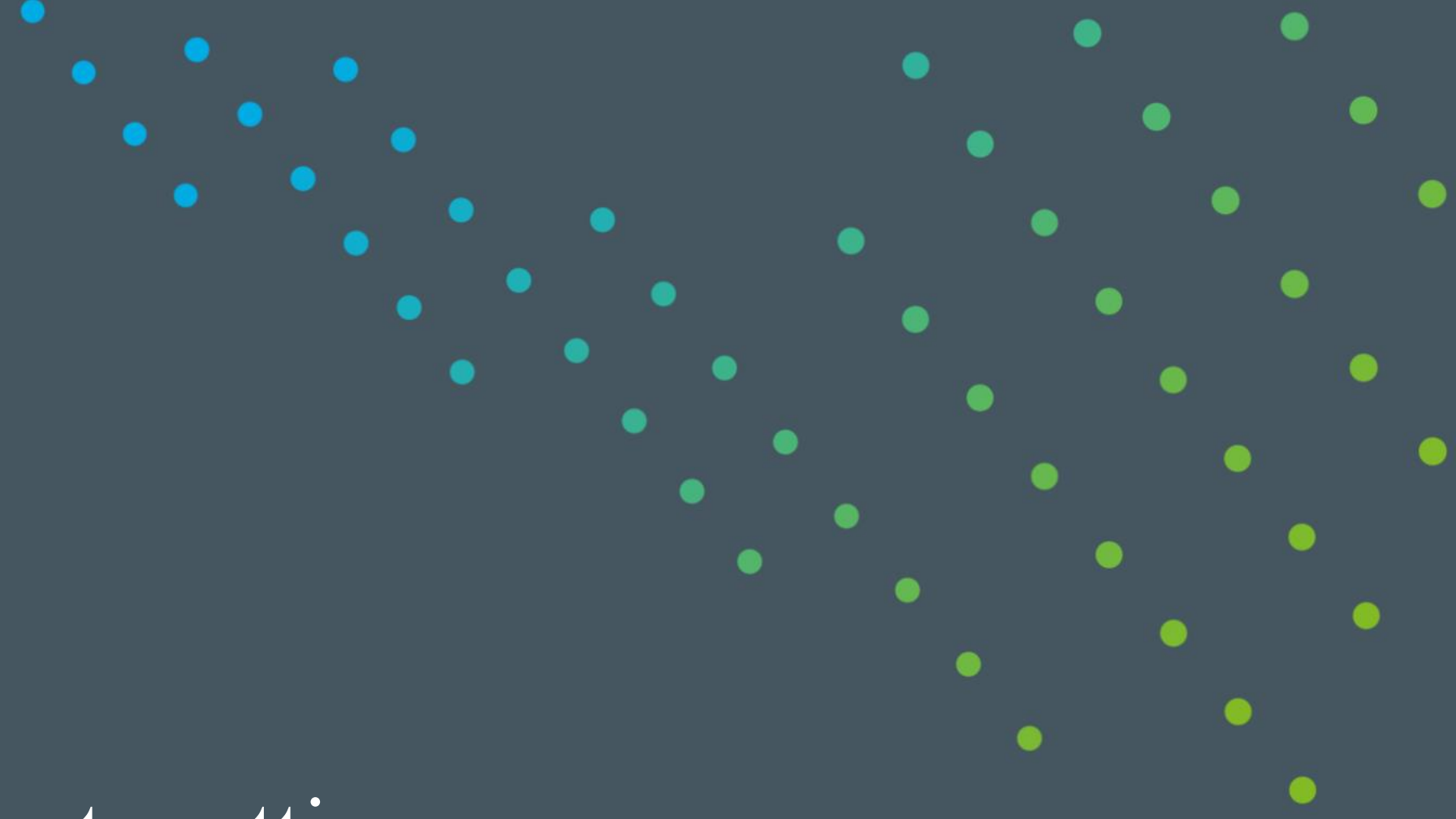
2020 valuation – funding plan vs peers

- **Funding plans will differ** between individual LGPS funds as they have different funding positions, investment strategies and attitude to risk.
- **Your funding plan** should be set based on the Fund's own views around long-term funding robustness and employer affordability.
- However, we do acknowledge that employers and other stakeholders will **compare and contrast** with peers who may participate in other funds.
- A **high-level comparison between funds** is detailed in this chart showing how the average fund-level contribution rate varies with past service funding position.
- Note that this chart does not allow for differences in investment strategy or prudence levels. Therefore it should only be used for **high-level information** and not relied upon to make funding decisions.



Source: Government Actuary's Department, 2020 Section 13 valuation
[LGPS Scotland S13 Report as at 31 March 2020 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

Contribution rate setting



3 steps to setting the funding strategy



Funding target

What is the employer's funding objective?



Time horizon

Will the employer continue to participate in the Fund for the long term or will they exit (and when)?



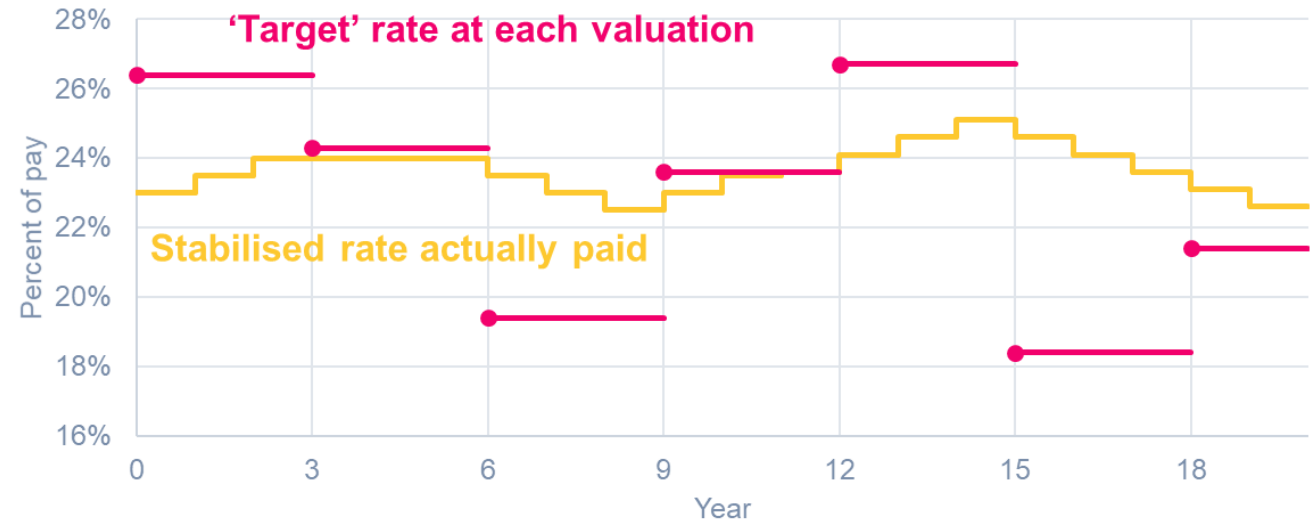
Likelihood of success

How strong is the employer's covenant?

Reflects the circumstances of each employer and allows the Fund to manage risk

Contribution Rate Stability Mechanism (CSM)

- The Fund operates a CSM for the Scottish Borders Council pool group of employers. Annual changes to rates are restricted to +/- 0.5% of pay.
- **Stabilisation takes a long-term approach** to setting contribution rates which cuts through short-term funding 'noise' ("underpay in the bad times, overpay in the good"). The chart opposite is illustrative only.
- It is an **explicit mechanism** documented in the FSS. At each valuation, the Fund must check that the funding plan remains appropriate and use that plan to set contribution rates for the Pool.



The CSM is designed to keep contributions stable through the peaks and troughs of market cycles

Tools for managing surpluses



Reduce employer contribution rates



Change the investment strategy



Increase prudence level



Retain the surplus

The funding level excludes the cost of future service benefits

Tools for managing surpluses



Reduce employer contribution rates

All employers expected to pay lower rates – subject to agreement



Change the investment strategy

Considering investment strategy with investment advisors



Increase prudence level

Minimum likelihood of success moved from 70% to 80%



Retain the surplus

Some surplus retention built into the contribution rate calculations

Factors considered at the 2023 valuation

- Avoid a **'knee-jerk' reaction** to the significant increase in surplus
- Almost all of the increase in surplus is due to **changes in liability assumptions** rather than actual investment performance
- The cost of funding future service benefits still must be met, with contribution rates reflecting **fairness of costs between generations**
- Market conditions and economic variables, such as interest rates and inflation, are **currently volatile**.
- In addition, there is **significant uncertainty** around climate and geo-political risks that may lead to future market *'shocks'*.

Aim is to apply a consistent and proportionate approach to funding plans across all Fund employers

Funding Strategy Statement (FSS)

Key principles of the FSS

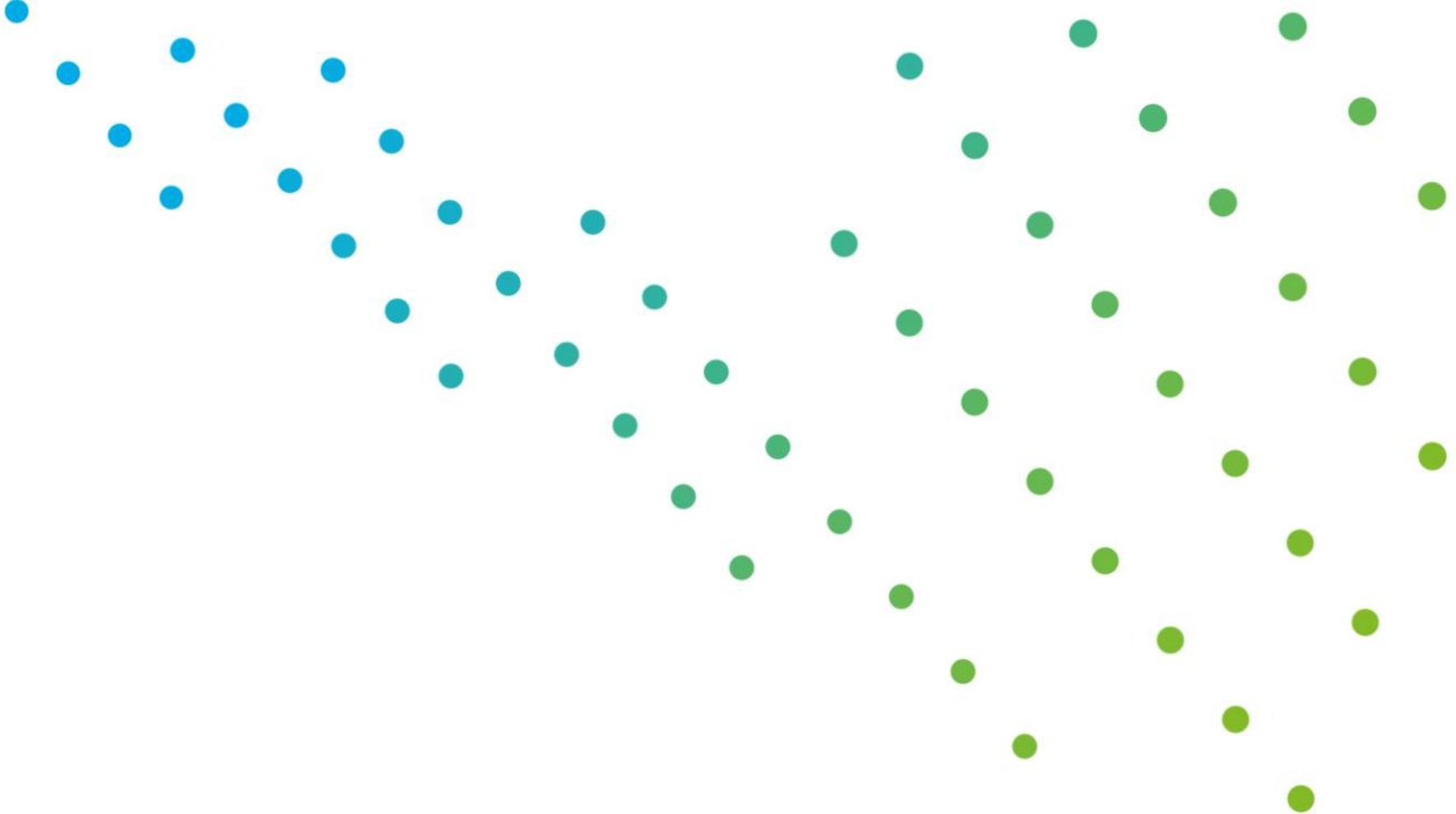
Setting out the Fund's approach to:

- Risk management
- Setting employer contributions
- Other important funding policies (e.g. employer cessation)

Governance process includes:

- Regulatory requirement to maintain the FSS
- Reviewed and updated triennially
- Consulted on with employers followed by approval by Committee

The Fund prepares, maintains and consults on the FSS in line with CIPFA guidance



Thank you

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PROGRESS ON DELIVERY OF 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

12 December 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present an update on progress with the delivery of the Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the governance arrangements and internal control system of the SBC Pension Fund to provide the statutory Internal Audit annual assurance and opinion. The Internal Audit Annual Plan 2023/24 for the SBC Pension Fund, approved by the Pension Fund Committee and Pension Fund Board on 9 March 2023, allocated 20 days to support the delivery of the Plan, which includes sufficient work to enable the Chief Audit Executive (CAE) to prepare the statutory independent and objective audit opinion to the year ending 31 March 2024.
- 1.3 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with its work activity to deliver the approved Internal Audit Annual Plan 2023/24 for the SBC Pension Fund. The Internal Audit service to the SBC Pension Fund is provided by Scottish Borders Council's Internal Audit team. The continuous audit approach which is applied to Internal Audit work for the SBC Pension Fund enables Internal Audit to provide added value advice on internal controls and governance and 'critical friend' consultancy services.

2 RECOMMENDATIONS

- 2.1 I recommend that the Joint Pension Fund Committee and Pension Fund Board:**
 - a) Note the progress made in the first six months of the year to deliver the approved Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund (Appendix 1); and**
 - b) Note that there are no proposed changes to the Plan that require approval, though 20 days allocation has been utilised and a further 5 days is proposed for completion of Internal Audit work for the SBC Pension Fund to March 2024.**

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the governance arrangements and internal control system of the SBC Pension Fund to provide the statutory Internal Audit annual assurance and opinion. It objectively examines, evaluates and reports on the adequacy of governance and internal control as a contribution to the proper, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit Annual Plan 2023/24 for the SBC Pension Fund, approved by the Pension Fund Committee and Pension Fund Board on 9 March 2023, allocated 20 days to support the delivery of the Plan, which includes sufficient work to enable the Chief Officer Audit & Risk (in the role of Chief Audit Executive (CAE) for the SBC Pension Fund) to prepare the statutory independent and objective audit opinion to the year ending 31 March 2024.
- 3.3 The Internal Audit service to the SBC Pension Fund is provided by Scottish Borders Council's Internal Audit team which reflects the Council's contribution of corporate support resources. Staff assigned to perform the Internal Audit work for the SBC Pension Fund hold relevant professional qualifications and have the necessary experience, knowledge, skills and competencies (such as the Code of Ethics set out in the Public Sector Internal Audit Standards (PSIAS)) needed to deliver the plan.

4 PROGRESS UPDATE ON DELIVERY OF INTERNAL AUDIT ANNUAL PLAN 2023/24 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND

- 4.1 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with its work activity to deliver the approved Internal Audit Annual Plan 2023/24 for the SBC Pension Fund. Those audits which are underway to reflect their continuous audit approach are highlighted in light shading, those completed are highlighted in darker shading, and those scheduled for the second half of the year are not shaded.
- 4.2 It is notable that 2023/24 continues to be a year of change for the Pension Fund. The Internal Audit Annual Plan 2023/24 for the SBC Pension Fund should be considered to be flexible and has been periodically reviewed to ensure it reflects the refreshed risk focus and the change and development work reflected in the business plan for the year. There are no amendments at this time relating to the Internal Audit Annual Plan 2023/24 for the SBC Pension Fund that require approval by the Committee/Board. However, it should be noted that the allocated 20 days to support the delivery of the Plan has already been fully utilised, and a further 5 days is proposed for completion of the remainder of the Internal Audit work for the Pension Fund to March 2024. This can be accommodated through flexing within the overall SBC Internal Audit Annual Plan 2023/24.
- 4.3 The Director of Finance & Procurement and HR Shared Services Manager of Scottish Borders Council, and the Head of Governance at ISIO have been engaged at appropriate times to capture potential areas of risk and uncertainty more fully, thus reflecting the changing resources and other factors relevant to the SBC Pension Fund. These discussions will continue on a regular basis to ensure Internal Audit assurance meet the needs of Management and other key stakeholders of the SBC Pension Fund.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this assurance report.

5.2 Risk and Mitigations

The PSIAS require Internal Audit to evaluate the effectiveness of the SBC Pension Fund's Risk Management arrangements and contribute to improvements in the process.

Internal Audit provides assurance to Management and Committee/Board on the adequacy and effectiveness of internal controls and governance within the SBC Pension Fund, including risk management, and to highlight good practice and recommend improvements.

The Internal Audit Annual Plan 2023/24 for the SBC Pension Fund has been informed by the risks, controls and mitigation actions as set out within the Pension Fund Risk Register as at March 2023 to ensure that Internal Audit plans are risk-based and provide relevant assurance.

Internal Audit has been kept apprised of the progress with the refresh of the Pension Fund Risk Register. The next steps associated with the approach to the management of risks of the SBC Pension Fund will influence the development of the proposed content for the Internal Audit Annual Plan 2024/25 of the Pension Fund.

5.3 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 a new or amended policy or strategy and an integrated impact assessment is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

5.4 Sustainable Development Goals

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

5.5 Climate Change

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

The Internal Audit work for the SBC Pension Fund is being carried out during 2023/24 using a virtual platform MS Teams to minimise the need for business travel and reduce potential climate impact.

5.6 Rural Proofing

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

5.7 Data Protection Impact Statement

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

5.8 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

6.1 The Director of Finance & Procurement and HR Shared Services Manager of Scottish Borders Council, and Head of Governance at ISIO, have been consulted on this report to ensure their awareness and oversight of Internal Audit performance against Plan.

6.2 In addition, Scottish Borders Council’s Director of Corporate Governance (and Monitoring Officer), Director People, Performance and Change, and Corporate Communications have been consulted in line with required practice.

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

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board, 9 March 2023

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Mid-Year Progress on Delivery of the Internal Audit Annual Plan 2023/24 for Scottish Borders Council Pension Fund

Ref	Category	Audit	Commentary	Status on Progress of Delivery at Mid-Year 2023/24
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>	<p>Continuous audit approach to read and assess the content of reports presented to joint meetings of the Committee and Board on a quarterly basis.</p> <p>Periodic engagement as a critical friend with consultant who has carried out a Governance Review on compliance with the Stewardship Code and has prepared an Action Plan.</p> <p>Continuous audit approach to keep apprised on the refresh of the Pension Fund Risk Register aligned to Business Plan objectives and priorities.</p>
2.	Assurance	Business plan improvements and developments	<p>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.</p>	<p>Continuous audit approach relevant to the cycle of joint meetings of Committee and Board to approve Business Plan and monitor progress on planned actions.</p>
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>	<p>Specific focus audit work on Investment transactions and governance has been completed, with extract Internal Audit report issued to SBC Director of Finance & Procurement. Conclusion: Guiding principles and an appropriate strategy are in place, supplemented by external professional advice, which ensure effective governance over investment decisions. No recommendations – findings and conclusion to be included alongside all other work within Internal Audit Annual Assurance Report 2023/24 in June 2024.</p>

Ref	Category	Audit	Commentary	Status on Progress of Delivery at Mid-Year 2023/24
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.	No Internal Audit recommendations in 2022/23. Follow-up scheduled 4 th Qtr on governance and risk management areas of improvement, as referred to in 1. Above.
5.	Other	Advice and Consultancy	As a 'critical friend' to Management, provide advice and internal challenge on projects involving major change and systems implementation.	Periodic engagement as a critical friend with consultant who has carried out a Governance Review on compliance with the Stewardship Code (as stated in 1. Above).
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.	Monthly check on publications to consider relevance for sharing.
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.	COA&R joined the June and September 2023 Joint Meetings of Pension Fund Committee and Board.
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.	Scheduled 4 th Qtr
		Total 20 days		

PENSION FUND RISK REGISTER UPDATE

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

12 December 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Members of the Pension Fund Committee and Pension Fund Board with an update on the review of the refreshed Pension Fund Risk Register, and an outline of next steps.**
- 1.2 Effective Risk Management is one of the foundations of effective governance of the Pension Fund. It requires a coherent approach to the management of risks that it faces every day through the identification, analysis, evaluation, control and monitoring of risks linked to the business plans and activities of the Pension Fund. The "Managing Risk in the Local Government Pension Scheme" published by CIPFA provides helpful guidance on the process.
- 1.3 At the Joint meetings of the Pension Fund Committee and Pension Fund Board during 2023, the following risk management items were agreed:
 - (a) 21 March 2023 - proposal to refresh the Pension Fund Risk Register and the associated approach and timetable; and
 - (b) 22 September 2023 - the refreshed Pension Fund Risk Register arising from the proposals to amalgamate and re-categorise the risks on a more manageable scale.
- 1.4 This report sets out progress on the review of the refreshed Pension Fund Risk Register and outlines the next steps.

2 RECOMMENDATIONS

- 2.1 I recommend that the Joint Pension Fund Committee and Board:**
 - a) Acknowledges that the formal full review of the risks in the refreshed Pension Fund Risk Register is approximately 80% complete and will continue;**
 - b) Notes that quarterly risk register updates will be presented to the Committee and Board; and**
 - c) Notes that a separate Risk Management policy and strategy for the Pension Fund will be developed for approval by the Committee and Board in March 2024.**











3 BACKGROUND

- 3.1 Effective Risk Management is one of the foundations of effective governance of the Pension Fund. It requires a coherent approach to the management of risks that it faces every day through the identification, analysis, evaluation, control and monitoring of risks linked to the business plans and activities of the Pension Fund. The "Managing Risk in the Local Government Pension Scheme" published by CIPFA provides helpful guidance on the process.
- 3.2 At the Joint meeting of the Pension Fund Committee and Pension Fund Board on 21 March 2023, the proposal to refresh the Pension Fund Risk Register and the associated approach and timetable were agreed.
- 3.3 At the Joint meeting of the Pension Fund Committee and Pension Fund Board on 22 September 2023, the refreshed Pension Fund Risk Register arising from the proposals to amalgamate and re-categorise the risks on a more manageable scale was approved.
- 3.4 The outcome of the refresh was the reduction in the number of risks on the Pension Fund Risk Register from 51 risks to 18 risks through mostly amalgamation, and some removal, of risks within the following Categories: Funding; Investment; Administration; Governance; and National Policy / Regulations. The exercise to reduce the number of risks on the Pension Fund Risk Register to a more manageable number will ensure the more efficient management and oversight of its risks.
- 3.5 It was also proposed that the Committee and Board should consider having a risk management framework for the Pension Fund.

4 RECENT RISK REGISTER REVIEW ACTIVITY

- 4.1 Since the Risk Register Update Report on 22 September 2023, the Chief Officer Audit and Risk and the Corporate Risk Officer have applied the amalgamation of a number of risks, removal of risks outwith its control, and re-categorisation of the remaining risks within the in-progress Pension Fund Risk Register. This has been a significant undertaking, requiring research and learning along the way.
- 4.2 Thereafter, risk reviews by the Risk Owners i.e. the Director of Finance & Procurement, Director People Performance & Change, and HR Shared Services Manager, were facilitated by the Chief Officer Audit and Risk and the Corporate Risk Officer. It should be noted that the amalgamation of a number of risks as part of the refreshed risk register review process takes significantly more time than it does to review single risks.
- 4.3 As indicated within the Risk Register Update Report on 22 September 2023, arising from the agreed amalgamation of risks, the in-progress Pension Fund Risk Register contains amended or enhanced risk descriptions to reflect the Risk Review discussions with officers. It is estimated that approximately 80% of the Risk Review activity is complete as at 23 November 2023. The red-rated Risk "*Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures*" has been reviewed this quarter in line with best practice.

- 4.4 Further to the above, the Chief Officer Audit and Risk and the Corporate Risk Officer have engaged with specialists from the Actuary (Hymans Robertson) and the Investment Advisers (ISIO) to ensure their input in the Risk Review activity associated with the Funding category risks and Investment category risks respectively. This confirmed the identification and evaluation of the key controls in all instances and their interdependency in some instances.
- 4.5 A proposal has arisen from the recent Risk Review work with the specialist advisers to further amalgamate a Funding category risk with an Investment category, taking account of the common risk factors/causes, consequences, and control measures, to avoid duplication of effort in managing and overseeing the identified risks. The following table summarises the risk categorisation and ratings from the in-progress Pension Fund Risk Register, which is shown in summary at Appendix 1 for information.

Category	Number	Risk Ratings
Funding	3 (was 4)	2 x  and 1 x 
Investment	3	2 x  and 1 x 
Administration	5	4 x  and 1 x 
Governance	3	2 x  and 1 x  *
National Policy / Regulations	3	2 x  and 1 x 
Total	17	

5 RISK MANAGEMENT NEXT STEPS 2023/24

- 5.1 The Risk Programme of Work for the Corporate Risk Officer in 2023/24 will continue to be developed on a quarterly rolling basis to incorporate the cycle of Pension Fund Risk Register reviews by the Risk Owners.
- 5.2 The Pension Fund Risk Register review and reporting activity will be aligned to the cycle of business to be considered at the joint meetings of the Committee and Board.
- 5.3 The Chief Officer Audit & Risk and the Corporate Risk Officer will develop a separate Risk Management policy and strategy for the Pension Fund for approval by the Committee and Board. This will ensure there is a relevant risk management framework in place for the Pension Fund aligned to its objectives, governance and administration.
- 5.4 Subject to the approval above, the Chief Officer Audit & Risk and the Corporate Risk Officer will prepare and deliver Risk Management Training for the members of the Committee and Board, and officers, to reflect the new Pension Fund Risk Management Policy and Strategy. This will ensure clarity on roles and responsibilities, process, oversight and monitoring.

6 IMPLICATIONS

6.1 Financial

There are no direct financial implications arising from the recommendations of the report.

6.2 Risk and Mitigations

The report sets to assure the Pension Fund Committee and the Pension Fund Board that the refresh of the risk register will enable more efficient and effective risk management arrangements going forward.

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. The requirement to undertake an Integrated Impact Assessment (IIA) will be fulfilled during the proposed development of a Risk Management Policy statement and Risk Management Strategy for the Pension Fund.

6.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals. Good governance including the management of risks is important to enable the Pension Fund to achieve its objectives, including those supporting sustainable development.

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. Good governance including the management of risks, is important to enable the Pension Fund to achieve its objectives, including those relating to climate change.

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 Director Finance & Procurement, Director Corporate Governance (and Monitoring Officer), Director People Performance & Change, HR Shared Services Manager, and Communications Team have been consulted on this report in line with required practice.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk
Emily Elder	Corporate Risk Officer

Background Papers: Pension Fund Risk Register

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 22 September 2023







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Appendix 1 – Pension Fund Risk Register

Refreshed summary @ 28 November 2023

Risk Code	Risk Owner	Risk Category	Description	Inherent Risk	Current Risk
PF101	Director Finance & Procurement	Funding	If the Investment Strategy is inconsistent with the Funding Strategy it may lead to assets of the fund being insufficient to meet future liabilities. <i>(previous Risk 1.9)</i> NB Description Change	3x3=9 	2x2=4 
PF102	Director Finance & Procurement	Funding	Failure of Funds investment returns to keep pace with growth in liabilities due to pay and CPI Inflation increase, which may lead to Funding Levels falling and potentially requiring increases in employer contribution rates. <i>(previous Risk 1.10)</i> NB merge with PF201 Investments		
PF103	Director Finance & Procurement	Funding	If a Scheme Employer fails to pay sufficient contributions then it may lead to a shortfall in the required assets to meet benefit payments. <i>(previous Risk 2.3 plus amalgamation of Risks 2.1, 2.2, 2.5, 2.6 & 2.7)</i> NB Description Change	4x3=12 	3x2=6 
PF104	Director Finance & Procurement	Funding	Significant differences between Actuarial Assumptions in the Triennial Valuation Reports and reality may lead to setting Funding and Investment Strategies which may result in insufficient cash flow to fund current obligations or insufficient funding to cover future liabilities. <i>(previous Risk 4.3 plus amalgamation of Risks 4.1 and 4.4)</i>	5x4=20 	3x2=6 

Risk Code	Risk Owner	Risk Category	Description	Inherent Risk	Current Risk
PF201	Director Finance & Procurement	Investment	Failure to achieve the target investment returns set out in the Investment Strategy may lead to an inability to sufficiently meet future liabilities and could lead to incurring costs associated with implementing changes to the Investment Strategy. <i>(previous Risk 1.1 plus amalgamation of Risks 1.7, 1.8 and 1.10)</i>	4x3=12 	4x3=12 
PF202	Director Finance & Procurement	Investment	Failure to react to major changes in market/economic conditions may lead to an inability to manage the fund properly resulting in significant adverse impact on valuation of investment assets and assessment of Fund's future liabilities. <i>(previous Risk 1.6)</i>	4x5=20 	3x3=9 
PF203	Director Finance & Procurement	Investment	Failure to manage the liquidity required for the Fund's cash flows may lead to assets being sold at unattractive times or investment opportunities missed due to unavailability of cash, resulting in an adverse impact on the valuation of the Fund's assets. <i>(previous Risk 4.6 plus amalgamation of Risks 4.5, 4.7 and 5.8)</i>	4x3=12 	2x2=4 
PF301	Director Finance & Procurement / Director People, Performance & Change	Administration	If there is an over reliance on key Officers or if Officers fail to maintain a sufficient level of competence to discharge their duties (incl. providing decision making support & advice) it may lead to an inability to manage the Fund effectively. <i>(previous Risk 3.1 plus amalgamation of Risk 3.5)</i> NB Description Change	3x4=12 	3x3=9 
PF302	HR Shared Services Manager	Administration	Failure to process pension payments and lump sums on time may lead to financial distress for retiring staff and potential referral to the Pensions Regulator and/or external auditor resulting in the possibility of penalty costs and reputational damage. <i>(previous Risk 5.1)</i>	3x3=9 	3x2=6 

Risk Code	Risk Owner	Risk Category	Description	Inherent Risk	Current Risk
PF303	HR Shared Services Manager	Administration	Failure to collect and account for contributions from employers and employees on time may lead to adverse cash flow implications for the Fund potentially resulting in adverse external audit opinion, referral to the Pensions Regulator, reputational damage and requirement to divest investments to fund the cash flow deficit. <i>(previous Risk 5.2)</i>	3x4=12 	2x2=4 
PF304	HR Shared Services Manager	Administration	Failure to manage data and information appropriately (security, completeness and accuracy) could result in personal data loss, incorrect pensions information being issued or incorrect benefits being calculated or paid, reputational damage and potential financial penalty. <i>(previous Risk 5.5 plus amalgamation of Risk 5.6)</i> NB Description Change	3x4=12 	3x3=9 
PF305	HR Shared Services Manager	Administration	If there is a cyber security breach then we may lose data relating to deferred and active pension fund members. This could result in a potential inability to process and pay pensions on time and could mean that we are in breach of GDPR legislation and face litigation and reputational damage. <i>(previous Risk 6.6)</i> NB Description Change	5x4=20 	5x2=10 
PF401	Director Finance & Procurement / Director People, Performance & Change	Governance	If we do not engage with and maintain good relationships with Scheme employers and if Scheme employers are not appropriately represented then inefficiencies in the operation of the Pension Fund may arise as scheme employers may not understand their roles and responsibilities relating to the Pension Fund. <i>(previous Risk 2.4)</i> NB Description Change	3x4=12 	3x3=9 

Risk Code	Risk Owner	Risk Category	Description	Inherent Risk	Current Risk
PF402	Director Finance & Procurement / Director People, Performance & Change	Governance	If Pension Fund Committee and Board members do not understand their roles and responsibilities or lack sufficient knowledge and expertise to discharge their duties it could lead to poor decision making and result in negative implications to achieve Objectives. <i>(previous Risk 3.2 plus amalgamation of Risks 1.4, 3.3, 3.4 and 7.1)</i> NB Description Change	4x4=16 	3x3=9 
PF403	Director Finance & Procurement	Governance	Failure of the Fund's Governance arrangements may lead to ineffective management of the Fund resulting in reputational damage <i>(previous Risk 7.2 plus amalgamation of Risks 7.3, 7.4 and 7.5)</i>	Yet to review 	Yet to review 
PF501	Director Finance & Procurement / HR Shared Services Manager	National Policy / Regulations	Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation <i>(previous Risk 6.1)</i>	4x3=12 	4x2=8 
PF502	Director Finance & Procurement	National Policy / Regulations	If we are unable to keep up with changes in legislation and other regulatory frameworks there may be negative impacts on the Fund in terms of funding levels and governance structures may not be compliant with regulatory requirements. <i>(previous Risk 6.2 plus amalgamation of Risk 6.5)</i> NB Description Change	5x5=25 	4x3=12 
PF503	Director Finance & Procurement	National Policy / Regulations	If the Pension Fund does not fulfil its fiduciary duties with appropriate regard to its Environmental, Social & Governance (ESG) responsibilities then there may be breach in statutory or regulatory requirements. <i>(previous Risk 7.6 plus amalgamation of Risk 1.12)</i>	4x4=16 	2x2=4 



GOVERNANCE REVIEW & STEWARDSHIP CODE ACTION PLAN

Report by Director of Finance & Procurement

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

12 December 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to review and approve the Pension Fund's Governance Review & Stewardship Code Action Plan.**
- 1.2 The Action Plan encompasses recommendations from the independently produced Governance Review report and the Fund's Stewardship Code report. It provides a high-level plan for how these will be progressed and implemented.
- 1.3 It is accompanied by an annotated schedule for all the Governance Review recommendations. This outlines proposals for the Committee's consideration on which are agreed/actioned and those that should not (and why).
- 1.4 It is proposed the work be delivered through a project management approach and the work has been structured into four workstreams. This will help provide additional focus and momentum, as well as regular project monitoring and reporting. However, a number of actions and timescales are dependent on the successful appointment to the Pension, Investment & Accounting Manager role.

2 RECOMMENDATIONS

It is recommended that the Committee:

- (a) reviews and agrees the proposals in the 'Governance Recommendations – Agreement to Proceed?' schedule (Appendix 1).**
- (b) reviews and agrees the Governance Review & Stewardship Code Action Plan (Appendix 2)**
- (c) Notes and recognises the potential impact on plan timelines, if the recruitment of the Pension, Investment & Accounting Manager is delayed further.**

3 BACKGROUND

- 3.1 Scottish Borders Council Pension Fund commissioned a review of its governance arrangements in 2022. This review was undertaken by an independent pension consultant in late 2022 and the report was presented to the Joint Pension Fund Committee & Pension Fund Board at its meeting on 15th December 2022. The report identified the strengths of the Fund's existing governance arrangements, as well as outlining recommendations for improvement.
- 3.2 In its December 2022 meeting, the Interim CEO suggested that an Action Plan be produced by officials, to address the recommendations raised in the Governance Review report. This was agreed by the Committee. Subsequently, the plan scope was extended further, to include actions arising from the Stewardship Code report.
- 3.3 Due to resource constraints, additional external resource was engaged to produce the Action Plan and work commenced in late June 2023. This resource was diverted to work on producing the Fund's Stewardship Code report for 2022/23 but re-commenced on the Action Plan in October and completed in November 2023.

4 ACTION PLAN: GOVERNANCE REVIEW & STEWARDSHIP CODE

Governance Review Recommendations Schedule:

- 4.1 In establishing the plan's scope and content it became apparent that, whilst the Joint Pension Committee and Pension Board had discussed the Governance Review report, no decisions had been finalised on which recommendations were agreed or not deemed necessary or appropriate for the Fund.
- 4.2 A schedule was produced ('Governance Recommendations – Agreement to Proceed?'). This details every governance recommendation in the report (including its use of bold text to indicate higher priority items). Outline proposals are made for each recommendation - either agreeing the action, or not (with rationale where no action is proposed). Recommendations proposed for action have explanatory notes, and an indicative priority level. Guidance on the assumptions used in the schedule was sought from the CEO and Finance & Procurement Director, as well as a number of other senior officials. A draft was then shared with the Chair of the Pension Committee for a 'sense check' on approach and direction taken. This schedule is now presented to the Pension Committee (at Appendix 1), to help provide a framework and inform decision-making. It has been used extensively to inform the Action Plan.
- 4.3 Actions arising from the Stewardship Code report are not included in the schedule. These were agreed by the Committee, at the September 2023 meeting, on the approval of the Fund's Stewardship Code report, 2022/23.

Governance Review & Stewardship Code Action Plan:

- 4.5 The Governance Review & Stewardship Code Action Plan is included at Appendix 2. The plan is structured into four 'packages' of work, broadly based on the nature of the actions, type of input required (e.g., policy or constitutional reviews and revision etc.), and/or specific knowledge required to deliver them. This also enables similar work activity to be undertaken concurrently, where logical to do so (Committee remit, Board constitution and Sub-Committee agenda planning, for example).
- 4.6 The Action Plan is a high-level document, providing sufficient detail for the Joint Pension Committee & Pension Board to monitor and assess progress. Timelines for delivery have been allocated based on specific Quarters through the calendar year. This provides some flexibility for teams managing various priority tasks, as well as fitting with the Joint Pension Committee & Pension Board quarterly meeting cycle, for reporting purposes.
- 4.7 In breaking down actions into key tasks and estimated delivery 'windows', the following officials were consulted and provided input: Human Resources & Shared Services Manager (HRSS), the Chief Officer Audit & Risk (COA&R), the interim Pension & Investment Manager and the Director of Finance & Procurement (DF&P). Project plans previously submitted by Isio (e.g.TCFD, responsible investment etc.) have also been referenced for other areas of the Action Plan.
- 4.8 A project management approach is proposed for delivering the Action Plan. This will help provide clear focus and momentum for ongoing work across the next two-three years. Regular project meetings will utilise consistent monitoring and reporting arrangements/formats, as well as provide a forum for resolving problems, and 'bottle-necks' to progress. Project progress reports will be presented to the Pension Committee & Pension Board on a quarterly basis. It is proposed that overall accountability for delivery of the project will sit with the Finance & Procurement Director, as Project Sponsor; 'work-streams' will be led by the relevant senior officials.
- 4.9 Whilst recruitment activity for the Pension, Investment & Accounting Manager role is ongoing, it is envisaged this will hopefully be concluded in line with the current timelines in the plan. However, in the event of further delays recruiting to this role, these timelines may be subject to review. Should the current recruitment exercise fail to produce a suitable candidate, then contingency measures for resourcing some/all this work will be identified.

5. IMPLICATIONS

5.1 Financial

The implementation of the actions in the Action Plan may require the Fund to engage additional external resources, expertise and/or incur additional systems related costs. It is possible that some additional resources may be required, to ensure timely implementation of parts of the plan. The level of such support is currently difficult to estimate without a more detailed assessment of needs but will be reported to Committee once available.

5.2 Risk and Mitigations

This report recommends the implementation of an Action Plan, that will strengthen the governance framework and operation of the Pension Fund and reflects compliance with the best practice recommendations. There are no additional risks identified from the recommendations in the report.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required und the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014.

5.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council. The recommendation however within the report will ensure the monitoring and reporting of the Fund against the goals are enhanced.

5.5 Climate Change

There are no direct climate change impacts because of this report. The recommendations within the report, however, will ensure the appropriate focus on good governance practice and improving, monitoring, and reporting responsible investment activity on the Fund’s activities, is maintained in future.

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

A small number of proposed actions will possibly result in some changes to the Scheme of Administration or the Scheme of Delegation. This relates specifically to the remit of the Pension Fund Committee and, potentially, that of the Investment & Performance Sub-Committee.

6 CONSULTATION

6.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications are being consulted and any comments received will be reported to the meeting.

Approved by

Suzy Douglas

Signature

Director of Finance & Procurement

Author(s)

Name	Designation and Contact Number
Suzy Douglas	Director of Finance & Procurement

Background Papers: Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board – 13th December 2022

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

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Scottish Borders Council Pension Fund: Schedule of Governance Recommendations – Agreement to Proceed?

Rec. No.	Recommended Actions	Action: Yes/No/Possibly	Priority Level	Rationale
Key Recommendations - Governance Structure: Policy, Process & Oversight				
GP1	The Fund should ensure that the roles of the Committee and Board members are distinct and clearly understood by all members and officers, including potential conflicts of interest.	Y	1	Member training in June 2023 covered respective roles of Board & Committee. If Joint structure to remain, both Chairs can ensure role delineation is clearly maintained before/during joint meetings. Review any further changes necessary when TPR Single Code published. This topic should be revisited at each annual training day.
GP2	The Pension Board's constitution should be reviewed and updated	Y	1	Review what other funds doing/what templates are used etc. Review/update for SBCPF accordingly.
GP3	The remit of the Pensions Committee should include the assessment of the effectiveness of the Fund's systems of control including the agreeing internal audit plans and reviewing the outcomes of internal audits.	Y	1	Revise remit in line with recommendations in Governance Review Report.
GP4	The Fund should review the make-up and business of the Investment Sub-Committee.	N	-	No action proposed. Current provisions provide for in depth discussions with Investment Mgrs. on performance/required improvements and could be difficult to do as thoroughly during full Committee meetings (e.g. time constraints, commercial confidentiality issues etc). Whilst requiring additional time commitment, from members, the role of the Sub-Com. provides an essential in-depth performance monitoring/managing role and provides for very open and frank discussion/reviews.
GP5	The Fund's training approach could be more specific to the needs of members including ensuring awareness of key documentation, assessing knowledge, and extending the Training Policy to senior officers. [Also an action in 22/23 Stewardship Code Report]	Y	1	Review current training provision and assess scope for improvement/more focused training material/means of delivery etc, to address Committee/ Board/Official needs. An annual in-person training day should be considered within the business plan. Identify pragmatic approach for evaluation of learning

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GP6	<p>2. The Fund should put in place new policies for the management of conflicts of interest and the reporting of breaches. This is a recommendation of the 'Good Governance Review'.</p>	N		<p>No action proposed. The Fund currently uses SBC policy on Conflict of Interest/reporting of breaches, and this is thought to be sufficient at present.</p> <p>Review position considering any TPR Single Code requirements, once this is published.</p>
<p>Additional Recommendations - Governance Structure: Policy, Process & Oversight</p>				
(i)	<p>Pension Committee</p> <p>The Fund should review the Scheme of Administration and address the following matters:</p> <ul style="list-style-type: none"> consider articulating its expectations of the Committee in more detail to ensure it considers key aspects of running the Fund. Review the make-up and business of the Investment Sub-Committee (<i>not to be actioned – see note on GP4</i>) Board members should not be members of the Investment Sub-Committee. set out the Council's expectation that members of the Committee comply with the Fund's training policy. Consider having member and/or employer nominated members on Committee with voting rights. Fund's Training Policy sets a minimum attendance at two Committee meetings, but not for attendance at the Investment Sub-Committee. The Fund should review this. 	Y	1	<p>Review and revise SoA/Committee remit as deemed necessary, taking account of the recommended points.</p> <p>A number of these actions are straightforward policy/process revisions, whilst others will require review and discussion with Committee/Board members, and senior officials. Check with other Scottish LGPS Funds to identify current practise and assess what would work for SBCPF etc.</p>
(ii)	<p>Pension Board</p> <p>Ref 'Review and update the Pension Board Constitution' (GP2)</p> <ul style="list-style-type: none"> The Board should produce an annual report on its activities, to be included in the Fund's Annual report. 	Y	1	<p>In addition to above type of actions, undertake review of what happens across other relevant LGPS Funds and extent to which Board constitutions have changed. Look at good practice and available templates for Board Constitutions, reports and how these might be adapted</p>

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	<ul style="list-style-type: none"> • During the appointment process and annually thereafter, members should be required to declare interests, with a register of interests available on the website. • How and when the members of Board who attend the Investment Sub-Committee are selected. 			to suit the needs of SBCPF Board etc. Proportionality and pragmatism need to be taken into account.
	Elected member(s) from the Council are members of the Board which could arise in specific potential conflicts of interests. <i>The Fund should ensure that it is comfortable that such conflicts can be managed.</i>	Y	2	Discuss potential issues/concerns with Board Chair/members. Assess how other relevant LGPS Funds address these risks.
(iii)	Board to consider meeting <i>before</i> Committee meetings to discuss any potential areas for scrutiny/challenge; Board attendees to Investment Sub-Committee can provide an update on investment matters.	Y	1	Board Chair to discuss with Board members at Dec.2023 Board meeting and revise/maintain arrangements and advise Secretariat Services accordingly. Almost complete
(iv)	Papers, minutes of meetings and the Council's website should clearly distinguish between members of the Committee and Board and a procedure developed to ensure website content is reviewed and updated on a timely basis.	Y	1	Action Complete: Fund Secretariat advised of updated Committee & Board membership, and to separately record membership of each, for minutes/papers etc. Fund website checked/updated in Dec 2022/Jan 2023 and to be checked quarterly.
(v)	The Fund may also wish to consider asking the Scheme Advisory Board to review the template constitution for pension boards.	N		No Action proposed. SBCPF will review/revise its Pension Board Constitution, as above.
	General Oversight			
(vi)	Every 3 years, the Committee should consider the report undertaken by the Government Actuaries Department for the Scottish Government (Section 13 report) which analyses the funding positions of the Scottish LGPS funds.	P	2-3	Hyman Robertson currently provides summaries of GAD reports and a link to full reports. Summary information is provided to Committee, if there are items of specific relevance to SBCPF. Assess if Committee want wider report content.
(vii)	The Fund should consider obtaining an update on the funding position between the formal actuarial valuations (e.g., annually). This would help to put the short-term investment performance into perspective and maintain members' awareness of funding.	P	2	Assess views of Committee and costs of provision

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<p>(viii)</p> <p>(ix)</p> <p>(x)</p>	<p>Training (Ref notes for GP5)</p> <p>Member Training:</p> <ul style="list-style-type: none"> • Fund documentation refers to an induction pack/list of key documents members are expected to be familiar with, but not all are. The profile of these documents should be raised, and for members to confirm familiarity with them on a regular (annual?) basis. • The Fund should consider assessing training needs based on knowledge (as opposed to members' perception of knowledge). • Training plans should address needs of all individuals (e.g., more bespoke plans when training needs vary/different plans for Committee and Board.) • Ensure the training plans address the needs of members (e.g more targeted training on the specific issues facing the Fund) • The minimum training is set at 2 training sessions per year, irrespective of duration, subject or knowledge gained. More specific minimum requirements should be considered. • Regularly review the effectiveness of training sessions. This could be done by assessing the knowledge gained. <p>Senior Officer Training:</p> <ul style="list-style-type: none"> • Extend the Training Policy to senior officers including deputy for the Section 95 officer. <p>[Training & Evaluation is also an action for the Stewardship Code Report]</p>	<p>Y</p>	<p>1-2</p>	<p>These additional recommendations in (ix) and (x) would be included in the 'package' of work on training, outlined in notes on GP5</p>
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Key Recommendations - Service Provision & Performance Monitoring & Evaluation				
SP1	<p>Assess Fund's resource needs, to ensure pension functions are efficient/effective.</p> <p>The Fund should ensure appropriate procedure manuals/timetabling are in place for key tasks to reduce impact of staff changes.</p>	Y	1	<p>Role of Pension Investment & Accounting Mgr. revised to be 100% dedicated to pension fund. Recruitment in progress.</p> <p><u>Procedures:</u> payroll activity already timetabled. Other admin. procedures partially recorded/need updating. Position on investment procedures to be reviewed/ revised in tandem with appointment of PI&A Mgr. role</p> <p>Undertake evaluation of current procedures. Identify critical gaps/changes/updates required etc. across both Pension Admin & Investment areas for manuals</p>
SP2	<p>Consider single officer role, managing all pension functions/most of their time dedicated to pension matters.</p>	N	1	<p>PI&A Mgr. role now 100% dedicated to the Fund. Changes to structure/reporting lines would create resourcing/service delivery challenges to existing integrated structure.</p> <p>Review position when TPR Single Code published</p>
SP3	<p>Expand Pensions Administration Strategy to include performance standards for internal pension service provision to Fund members, enabling performance to be monitored/managed.</p>	Y	1	<p>Identifying/ implementing relevant metrics is already a priority for Pen. Admin..</p>
SP4	<p>Data improvement plan should be developed and implemented.</p>	Y	1	<p>Work already well progressed and in preparation for Pension Dashboards.</p>
SP5	<p>The Fund should regularly review the risks and resources of maintaining two systems for pensioner payroll.</p>	P	2	<p>There are some significant risks/costs in moving to a single system, due to reliance on interfaces with a number of other internal/external systems. A cost-benefit-analysis to be produced to identify/ assess options, pros/cons & costs.</p>
SP6	<p>Benchmarking of administration and investment should be undertaken on a regular basis, including cost and performance, with results reported to Committee.</p>	Y	3	<p>SBCPF currently uses CEM for investment benchmarking. In Pen.Admin. performance metrics/standards should be allowed to 'bed in' prior to external benchmarking. This would also allow time to research/cost suitable benchmark options and providers (e.g. CIPFA)</p>

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Additional Recommendations - Service Provision & Performance Monitoring & Evaluation				
(i)	The Fund could consider the appointment of an independent adviser to provide support for officers, Committee and Board, helping to scrutinise advice from investment consultants and other advisers.	P	2	Assess potential benefits/costs and what the scope of an 'independent' role might be, to provide best value to Fund.
(ii)	The budget and business plan should be considered by Committee at the same time, ensuring the implications of the business plan are included in the budget.	Y	1	Appraise implications of aligning plan and budget timetables
(iii)	The Fund should regularly survey members and employers to gain feedback on the service, for example after specific interactions (new joiners, retirements, deaths, employer events) or more generally on a periodic basis. [Also an action for Stewardship Code Report]	Y	2	Committee agreed to an annual member newsletter, at Sept '23 meeting, to be introduced in March '24 . A member survey is also planned for later in '24 to elicit member feedback.
(iv)	The business plan and budget could include more extensive performance measures for example in areas such as communications, member self-service (registration and regular logins), employer data processing, customer satisfaction and data quality.	Y	2-3	Can be undertaken once new processes/ performance metrics are embedded and providing reliable performance data
(v)	Efforts have been made recently to expand the use of the pensions administration system including online access for members, document management and data analysis tools. Further automation should be considered including the use of workflow and electronic transfer of data from employers to further increase efficiency and reduce risk.	P	2	Monitoring/measurement of new performance metrics may require automated support. Produce cost-benefit-analysis assessing requirements, system options, pros/cons and likely costs.
(vi)	Performance against the Pensions Administration Strategy is currently reported to Committee on an annual basis. Performance should be monitored by Committee more frequently (at least every 6 months, if not quarterly) to be better informed of potential pressures on the service and ensure action is taken if necessary. (the service standards should also be extended to the services for members.)	Y	2-3	Provide at 6-month intervals initially, until metrics are developed/implemented and assessed for reliability. Reporting frequency can then be reviewed.

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(vii)	The Fund should regularly monitor the performance of the external provider of the Additional Voluntary Contributions (AVCs) facility, both investment and administration performance. The last review done in November 2018. The Fund should communicate to members with AVC arrangements to remind them of the importance of monitoring their AVC investment choices.	Y	3	Last reviewed in 2018. Propose review on 7- year cycles, making next one 2025. This allows new providers of AVC platforms and various cost benefits of changing provider to be assessed, prior to date of review
Key Recommendations – Investment Oversight & Reporting				
IOR1	Consolidating the large number of investment managers/mandates to a smaller number of asset classes could aid Committee’s understanding of the key issues.	N		No action proposed. The number of investment managers/mandates is driven by the Fund’s Strategic Investment Policy. In relative terms, the LPF IFM includes a high number of managers for the investment size, which skews the overall figure.
Additional Recommendations – Investment Oversight & Reporting				
(i)	Ensure the agenda for Investment Sub-Committee aligns with its remit. There are some aspects of the Sub-Committee’s remit which have not been addressed recently (Statement of Investment Principles, overseeing the custodian and consideration of the risk register).	Y	1	Review as part of wider Committee remit and Investment & Performance Sub-Committee work and revise as required.
(ii)	There has been a significant drive in the investment industry to achieve greater transparency of investment costs. The ISC could review the investments costs on a periodic basis (e.g. annual) which would increase awareness of asset classes and investment managers and hence inform future decisions.			Assess current provisions for cost/value monitoring and review potential options for improvement/clarity
(iii)	There could be ways to consolidate/simplify papers to reduce duplication. See also the previous comments on the review of the Investment Sub-Committee.	Y	2	Assess options for streamlining.
(iv)	Consider delegation of some (less significant) manager decisions/oversight to officers, so Committee can consider the most significant holdings (subject to there being sufficient officer resource and expertise).	N		No action proposed. Deemed unnecessary for small funds, such as SBCPF

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(v)	The monitoring of the infrastructure/'other real assets' mandate advised by the Lothian Pension Fund is considered by Committee, not the Investment Sub-Committee. In future, comparison of the internal infrastructure mandate with the newly appointed infrastructure IFM will be important. The approach to monitoring should therefore be reviewed to ensure consistency.	Y	2	Implement when next review of investment manager due
(vi)	The Investment Sub-Committee have agreed a framework to assess the Fund's investment adviser. The final assessment of the provider should be agreed by the Committee.	Y	1	To be agreed by Committee if not already done.
(vii)	The reports on specific investment managers are detailed but they tend to focus on the most recent quarter's performance and activity. The Committee typically meets with managers annually, therefore the reports could focus on such longer-term periods. Performance for periods of more than 3 years would also help.	Y	2	Assess how best to implement and introduce for 2024 reviews.
(viii)	A single list of managers/mandates might be a helpful reference document given the complexity of the Fund's investment structure	Y	2	In line with annual review cycle
(ix)	The attribution (i.e. an explanation of the main drivers) of investment performance could aid understanding of the key issues.	Y	2	
Key Recommendations- Risk Management & Assurance				
RA1	The Fund should document how it complies with The Pensions Regulator's Code(s) and include the risk of non-compliance in the risk register.	Y	1	Incorporate compliance in next review/update of Governance Policy & Compliance Statement in 2024. Risk of non-compliance is now incorporated in refreshed Risk Register, approved by Committee at Sept. 2023 meeting. This aspect has been completed.
RA2	The Fund's internal audit should be expanded to cover the Fund's specific risks. The Fund should also review the resource needed to provide assurance on the key risks.	Y	1	Expansion of internal audit scope, already agreed by Committee in March 2023 and will be included in 2023/24 audit plan. Additional audit resource/time has been allocated to reflect this. This has been completed

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Other Recommendations - Risk Management & Assurance				
	Risk			
(i)	The Fund should develop clear definitions of impact and likelihood used to assess risks and include them in Committee reports. These could help Committee and Board to scrutiny of the risk register (If not already in place).	Y	1	Complete: clear definitions for risk categories already included in Risk Prioritisation Matrix & Process Guide. Training for members has also been provided.
(ii)	The Fund could consider the level of appetite for risk and set target risk scores to ensure focussed action.			A stand-alone policy & strategy is to be developed which will cover risk appetite, target risk scores and other good risk management practices
	Audit/Assurance			
(iii)	The results of internal audits are currently reported to the Audit & Scrutiny Committee of the Council. The outcomes of internal audits relating to the pension functions should be reported to the Pension Fund Committee to make them aware of the risks relating to the pension fund.	N		No action necessary. This recommendation is based on a misunderstanding of the current process. Internal audit outcomes are already reported to the Committee, in the Internal Audit Annual Assurance Report.

Priority Levels:

1 = *commence* work current FY and complete in 2024/25 FY

2 = undertake work in 2024/25 FY

3 = undertake work in 2025/26 FY

Use of Bold Text:

The independent consultant who undertook the 'Review of Governance Report for Scottish Borders Council Pension Fund' used bold text to indicate the actions considered to be most important to the Fund. This has been replicated in this table, to ensure the recommended levels of priority continue to be illustrated.

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Appendix 2

Scottish Borders Council Pension Fund Governance Review & Stewardship Code Action Plan

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Notes on the Action Plan:

1. Timescales used in this plan relate to the calendar year
2. Source references used in the plan are drawn from Governance action numbering from the Review Schedule & Stewardship Code report 2022/23) respectively, to enable activities from each report to be tracked (Prefixes GP, SP, IOR, RA refer to Governance Review Actions; Prefix St.C refers to Stewardship Code actions)

Scottish Borders Council Pension Fund

Draft Governance Review & Stewardship Code Action Plan

Source Ref.	Plan Action No.			Delivery	
		Recommendations/Actions:	Key Tasks		
Workstream 1: Governance Structure, Policy, Process & Oversight				Workstream Lead(s)	Scheduled Completion
GP1 GP3 GP (i) GP (v)	1.	<p>Review/update Scheme of Administration, addressing all points in Governance Review Report, including:</p> <p>Revise Committee remit to include how efficacy of control systems are assessed (e.g. agreeing internal audit plans and reviewing outcomes).</p> <p>Pension Committee & Board roles are clearly distinct.</p> <p>Board members should not be members of I&P Sub-Com.</p> <p>Fund Website for SBC specific content/ accuracy to be regularly reviewed & updated</p>	<ul style="list-style-type: none"> Review Section VIII of SBC's Scheme of Administration to revise/update remit of Pension Fund Committee and I&P Sub-Committee. Chairs of Pension Committee & Board to monitor/ maintain clear delineation between respective roles at joint meetings. Provide regular refresher training on governance structures & roles for members/relevant officials, as part of Training review, below. Clarify wording on Board constitution/other Fund documentation to describe Board member attendance at I&P Sub-Com., without being deemed 'members' and how attendance at meetings will be organised by the Board. Include provision in Fund Communication Strategy Continue to review adequacy of provision against any additional requirements of TPR's Single Code, once this is published 	PI&A Manager	<p>Qtr.1 2024</p> <p>Qtr.1 2024</p> <p>In line with Action 2 on Training</p> <p>Qtr.1 2024</p> <p>Qtr.3 2024</p> <p>Following publication</p>
GP5 St.C 1.7	2.	Review Training approach/frequency/ content, for more bespoke approach to address key issues facing the Fund and specific needs of members/ senior officials	<ul style="list-style-type: none"> Review current training provision i.e., frequency, content, methods of delivery and budget, to improve relevance of training. Develop approach to evaluating effectiveness and value of training 	PI&A Manager	<p>Qtr.2 2024</p> <p>Qtr.2 2024</p>

Scottish Borders Council Pension Fund

Draft Governance Review & Stewardship Code Action Plan

		<p>Assess if current Training Policy requirements for min. attendance at meetings/training is still adequate for the Fund's needs.</p>	<ul style="list-style-type: none"> Review adequacy of minimum standards considering current/future Fund needs. Determine approach which demonstrate member knowledge/understanding/contribution, through other measures (ref evaluation above). <p><i>Undertake above tasks by eliciting views/input of members, officials, and comparison with practice across other relevant LGPS Funds.</i></p>		Qtr.2 2024
<p>GP2 GP(ii) GP(iii) GP (iv) Page 77</p>	3.	<p>Review/update Pension Board Constitution. To include:</p> <p>Production of annual Board reports</p> <p>Process for annual 'declaration of interests' for members & register of interests on Fund's website</p> <p>Fund ensures that potential 'conflicts of interest' for Board Members who are also Councillors can be managed</p>	<ul style="list-style-type: none"> Research on what other Scottish LGPS Funds are doing, for examples/templates of 'good practice' which can be adapted for SBC's Pension Fund Board Constitution, bearing in mind size of Fund and what is proportionate.. Produce process for recording/monitoring register of interests and potential 'conflict of interest' for Board members; maintain records of issues and outcomes, in line with SBC Conflict of Interest Policy 	PI&A Manager	<p>Qtr.3 2024</p> <p>Qtr.3 2024</p>
<p>GP (vii) GP (viii)</p>	4.	<p>Committee to consider: Review of tri-annual GAD report (Section 13 report) on funding positions of Scottish LGPS Funds</p> <p>Obtain updates on funding position, between formal actuarial valuations</p>	<ul style="list-style-type: none"> Assess what further detail from full GAD report would be useful for Committee & Board, to augment existing reporting. Provide outline of additional reporting requirements/costs to Committee. If agreed, arrange annual reporting cycle with Hyman Robertson. 	PI&A Manager	<p>On receipt of next GAD report from Hyman Robertson</p> <p>Qtr.1 2025</p>

Scottish Borders Council Pension Fund

Draft Governance Review & Stewardship Code Action Plan

Workstream 2: Service Provision & Performance Monitoring & Evaluation				Workstream Lead(s)	Completed
SP1	5.	<p>Review Fund's resource needs.</p> <p>Ensure procedure manuals/ timetabling in place for key tasks in Pen. Admin & Investment</p>	<ul style="list-style-type: none"> • Complete recruitment for Pension, Investment & Accounting Mgr. by Mar. 2024 • Provide induction and assess/action immediate training needs to new PI&A Mgr • Evaluate current Pension Admin & Investment procedure manuals to update/augment/address gaps. Training manuals to be completed by mid 2024. 	<p>Fin. & Proc. Director</p> <p>HRSS Manager/ PI&A Manager</p>	<p>Qtr.1 2024 (depends on recruitment) On appointment</p> <p>Qtr. 4 2024</p>
SP (i)	6.	<p>Consider appointment of independent adviser to provide support for officers, Committee & Board</p>	<ul style="list-style-type: none"> • Scope-out need/potential remit/focus of role, and how role would interact across Fund. Assess benefits vs costs, via cost/benefit analysis. • If agreed by Committee, identify potential 'candidates', and undertake procurement. • Induction of independent consultant 	<p>Fin. & Proc. Director</p>	<p>Qtr.1 2025</p>
SP3	7.	<p>Expand Pen. Admin Strategy to include performance standards for internal service provision (member communications, self-service provision, customer satisfaction, data quality etc.)</p>	<ul style="list-style-type: none"> • Identify and develop key performance metrics, relevant and proportionate for SBC Pension Admin. Also assess systems potential for processing & analysis. • Seek Committee approval for implementation and implement pilot for 2024/25 Financial Year 	<p>HRSS Manager</p>	<p>Qtr.1 2024</p> <p>Qtr.2 2024</p>
SP(iv) SP(vi)	8.	<p>Strategy to be monitored by Committee more regularly and service standards extended to services for members.</p> <p>Business Plan to include more extensive performance measures in line with above & performance against Pen. Admin.</p>	<ul style="list-style-type: none"> • First performance metrics report to Committee by Sept. 2024. Report performance levels to Committee at 6-monthly intervals, initially. • Include in Bus. Plan once new metrics providing consistent, reliable data (2024/25 Bus. Plan). 		<p>Qtr 3 2024 & at 6 monthly intervals</p> <p>2024/25 Bus. Plan</p>

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St.C 2.1 St.C 2.2 St.C 2.3 SP(iii)	9.	Monitor/measure efficacy of Fund's Communications Strategy (and engagement activity) and how it serves best interests of Fund beneficiaries. To include: <ul style="list-style-type: none"> Improve comms with members and signposting to Fund website/other information sources Regularly survey members & employers to get feedback on services and assess most effective comms channels/content Engage more proactively with employers on Fund activity Promote Fund's ESG activities and raise awareness through website 	<ul style="list-style-type: none"> Research good practice/media used across SB Council and what other LGPS Funds do - by 31st March 2024 Implement annual newsletter to members - scheduled for March 2024 Design/issue Member Feedback Survey to elicit views/inform future comms. and analyse feedback. Contact employers to elicit feedback/views on future communications and on annual Employer Liaison meeting. Regularly assess need for information posts/updates via Fund website/other media and prompting/'signposting' members to these updates. Report summary feedback findings (members & employers) to Committee at Sept. 2024 meeting. Review/revise Communication Strategy, if necessary 	HRSS Manager & PI&A Manager	Qtr.1 2024 Qtr.1 2024 Qtr.3 2024 Quarterly Qtr.3 2024
Page 79 SP(ii)	10	Fund Budget & Business Plan to be considered by Committee at the same meeting	<ul style="list-style-type: none"> Assess implications/resource needs to bring forward Business Plan to March, in line with budget timetable. Confirm Committee approval - Dec 2024 meeting Implement Plan/Budget alignment for 2025/26 	HRSS Manager & PI&A Manager	Qtr. 1 2025
SP4	11	Data Improvement Plan to be developed & implemented	<ul style="list-style-type: none"> Data readiness & assessment in progress, in line with Pension Dashboard timetable Data quality match between internal & external member data to assess data accuracy and identify gaps Agree timeline with external supplier for data match and process to address gaps 	HRSS Manager	Qtr.3 2024
SP5	13	Review of risks/resources in maintaining two pension payroll systems	<ul style="list-style-type: none"> Undertake a full cost-benefit analysis and risk assessment, to identify/assess options, benefits/risks, and likely costs. Present outputs and recommendations to Committee Prepare plan for implementing any changes agreed 	HRSS Manager	Qtr.3 2024
SP6	14	Undertake external benchmarking results (inc. performance & costs of provision) for Pen. Admin & Investment. Regularly report to results to Committee	<ul style="list-style-type: none"> Research and cost appropriate Pen. Admin external benchmarks and make recommendation to Committee. Key findings for Pension Admin. & Investment (CEM) external benchmarking reported to Committee annually. 	HRSS Manager HRSS Manager & PI&A Manager	Qtr.4 2024 Qtr.4 2024 & annually

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SP(v)	15	Assess scope of Pen. Admin system for further automation of tasks/data management etc.	<ul style="list-style-type: none"> • Explore further automation options for monitoring/measuring performance metrics using Workflow, I-Connect or alternative systems. • Report/recommendations to Committee • Prepare plan for agreed option, implement systems option and 'pilot' performance data capture and validity 	HRSS Manager	In line with metrics dev. timeline (action 7)
Page 80	16	Performance monitoring of external AVC facility (both investment & administration performance)	<ul style="list-style-type: none"> • AVC performance and provision to be reviewed on 7 year cycle (next one scheduled 2025). • Assess alternative AVC providers for more beneficial services/performance/costs, prior to 2025 • Recommendation to Committee for 2025-32 provision • Implementation of agreed actions/provider 	HRSS Manager	Qtr.4 2024 Qtr.1 2025

Scottish Borders Council Pension Fund

Draft Governance Review & Stewardship Code Action Plan

Workstream 3: Investment Oversight & Reporting				Workstream Lead(s)	Completed
St.C 2.4	17	Continue developing ESG objectives and metrics, in line with TCFD project plan	<ul style="list-style-type: none"> • Actions for TCFD Project Plan, and Responsible Investment Plan, led by Isio. Update provided Oct 2023 	PI&A Manager	Annual review & updates
St.C 4.1	18	Improve reporting and quality of data on managers voting/voting outcomes on ESG considerations	<ul style="list-style-type: none"> • ESG/Climate Impact Assessment – review of managers sustainability activity, led by Isio • Implementation Statement updates, led by Isio 	PI&A Manager	Annual reviews & updates
St.C 3.2	19	Develop Escalation Policy to formalise current I&P Sub-Com. process for annually reviewing/monitoring ESG scores, through active engagement with managers	<ul style="list-style-type: none"> • Map process used by I&P Sub- Com. and draft Escalation Policy. • Once agreed, include in Fund’s policy & key documents ‘review cycle’ 	PI&A Manager	Qtr.2 2024
St.C 1.3	20	Use improved monitoring & reporting/ data quality to continually review and update Fund’s Responsible Investment Policy objectives	<ul style="list-style-type: none"> • Review and update/revise Responsible Investment Policy in line with review cycle. • Responsible Investment Plan - metrics & targets update, led by Isio • Implementation Statement updates, produced by Isio, for Stewardship Code Report 	PI&A Manager	Annual Review Qtr.4 2023 & annually Qtr. 3 2023 – then annually
IOR(i)	21	I&P Sub- Com. agenda to align more closely with its remit	<ul style="list-style-type: none"> • Review as part of wider Committee/I&P Sub-Committee work and revise agenda planning as necessary • Monitor I&P Sub-Com. agenda to ensure remit responsibilities are covered, in line with Fund’ policy/key documentation ‘review cycle’ 	PI&A Manager	Align with Plan No. 1 timeline
IOR(ii)	22	I&P Sub-Committee to review investment costs on a regular basis	<ul style="list-style-type: none"> • Review as part of wider Committee/I&P Sub-Committee work • Assess current arrangements for cost/value review and recommend potential options for providing material improvements in cost data collection and monitoring (• Implement changes to collect/ process/report additional cost/value data 	PI&A Manager	Align with Plan No. 1 timeline
IOR(iii)	23	Assess scope to consolidate/simplify papers to reduce duplication	<ul style="list-style-type: none"> • Review current papers produced as part of wider Committee/I&P Sub-Committee work and make recommendations on options for streamlining • Implement agreed changes 	PI&A Manager	Align with Plan No. 1 timeline

Scottish Borders Council Pension Fund

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IOR(v)	24	Review how LPF infrastructure/'other real assets' should be monitored to ensure consistency of approach across Committee/Sub-Committee	<ul style="list-style-type: none"> Assess implications of I&P Sub.Com. monitoring LPF investment managers; identify options for improving consistency of approach and realistic workload impacts Once agreed, implement any necessary changes to relevant processes and documentation 	PI&A Manager	Qtr.1 2025
IOR(vii) IOR (ix)	25	Annual Investment Manager reporting to include: <ul style="list-style-type: none"> Longer-term performance trends, in addition to that of the last quarter (e.g. 3+ yr.); Explanation of attribution (key drivers) of performance 	<ul style="list-style-type: none"> Advise/Work with Investment Managers to implement additional performance related information in reports, for next reporting cycle 	PI&A Manager	2025/26 round of Investment Manager reviews
St.C 2.5 Page 32	26	Improve information consistency, sufficiency, and quality to enable monitoring Fund's ESG objectives	<ul style="list-style-type: none"> Ref. actions for Plan No.'s 17, 18, 19, 20 above. 	PI&A Manager	As per timeline for actions 17-20
St.C 2.6 Page 32	27	Expand data collected from managers via the annual 'Fund Manager Review' returns to determine performance against Fund's requirements and objectives	<ul style="list-style-type: none"> Identify additional data requirements and communicate additional requirements to investment managers. Revise Fund's 'Fund Manager Review' template. Monitor returns from managers; notify Sub-Committee of any managers failing to complete (adequate) returns. Compile analysis of returns and produce report for I&P Sub-Com. for September meeting 	PI&A Manager	Qtr.2 2024 Annually Annually
St.C 3.1	28	Dependent on available resource: Review opportunities for more direct engagement and collaboration, via LAPFF/similar organisations. Continue to improve monitoring of engagement and collaboration undertaken by managers.	<ul style="list-style-type: none"> Research relevant opportunities for direct/indirect engagement (via organisations (e.g. LAPFF, CIPFA, LGPS Fund initiatives etc.) Produce pragmatic engagement/collaboration plan, focused on Fund's ESG priorities and recognising best use of available resources. Monitor/report outcomes. Ref. TCFD Project plan, ESG metrics & reporting work, led by Isio 	PI&A Manager	2025/26 As per Plan No.'s 17, 18 & 20
IOR(viii)	29	Produce single list of managers/ mandates as reference document	<ul style="list-style-type: none"> Include list of managers/mandates in Induction Pack for Committee/Board members 	PI&A Manager	Qtr.2 2024

Scottish Borders Council Pension Fund

Draft Governance Review & Stewardship Code Action Plan

Workstream 4: Risk Management & Assurance				Workstream Lead(s)	Completed
RA1	30	Fund to document how it complies with TPR Code(s), including the risk of non-compliance	<ul style="list-style-type: none"> Produce statement of compliance with TPR's Code and amalgamate within Governance Policy & Compliance Statement. Undertake work ahead of next scheduled review/update of GP&CS unless publication of TPR General Code pre-empts this timeline. Risk of non-compliance incorporated into Risk Register Completed – no action required	PI&A Manager CO A&R	Qtr.2 2024 at next GP&CS review Qtr.3 2023
St.C 1.4 RA(i) RA(ii) Page 83	31	<p>Fund to: Refresh and rationalise risk register to provide more focus on priority risks and areas within the Fund's control</p> <p>Develop clear definitions of impact & likelihood to assess risks and include in Committee reports</p> <p>Consider level of risk appetite and set target risk scores</p>	<ul style="list-style-type: none"> Risk Register refresh Completed – no action required Clear definitions for risk categories Completed – no action required Produce stand-alone risk management policy and strategy to outline the specific approach aligned to its objectives, governance and administration. 	CO A&R CO A&R CO A&R	Qtr.3 2023 Qtr.3 2023 Qtr.1 2024
RA2 St.C 1.5	32	To expand Fund's Internal Audit remit to cover its specific risks (inc. ESG) and consider resource needed to provide this level of assurance	<ul style="list-style-type: none"> Expansion of Internal Audit remit and requisite resource requirements approved by Committee for future Internal Audits. Completed – no action required 	CO A&R	Qtr. 1 2023

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BUSINESS PLAN PERFORMANCE UPDATE

Report by Director of Finance & Procurement

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

12 December 2023

1 PURPOSE AND SUMMARY

- 1.1 This report is to provide members of the Committee and the Board with an update on delivery of the actions within the approved Business Plan.**
- 1.2 The 2023/24 – 2025/26 Business Plan for the Pension Fund was approved by the Committee on 22 June 2023. Included within the plan were key objectives and actions with target dates. A summary of the progress on the actions are included in Appendix 1.
- 1.3 As part of the risk register update approved at Committee on 22 September 2023 it was agreed that a mid-year progress report on the business plan actions would be presented to Members at the December 2023 meeting and a further progress report and update at the June 2024 meeting.
- 1.4 There are 16 non-recurring tasks due for completion during 2023/24. As detailed in Appendix 1, all actions are progressing or are complete with exceptions and delays in delivery outlined in section 4.2 of this report.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:**
 - (a) Notes the progress of the 2023/24 actions within the business plan;**
 - (b) Agrees the revised target dates for the actions in section 4.2 below.**

3 BACKGROUND

- 3.1 Local Government Pension Scheme (LGPS) administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the “Myners Principles” and the reporting on compliance, as required by the LGPS Regulations, must be included in the Statement of Investment Principles.
- 3.2 Best practice indicates that having a business plan for the Pension Fund is a good way of demonstrating compliance with the “Myners Principle” that underpin effective decision making. The Pension Fund Committee and Board approved the 2023/24 – 2025/26 business plan on 22 June 2023.
- 3.3 As part of the risk register update approved by Committee/Board on 22 September 2023 it was agreed a progress report on the actions contained within the business plan would be reported to the Committee and Board at the December 2023 meeting.

4 ACTION PLAN – PROGRESS UPDATE

- 4.1 The action plan approved at the joint meeting on 22 June 2023 detailed how the achievement of the objectives within the business plan would be measured. Appendix 1 shows the actions to be completed in 2023/24.
- 4.2 There are 16 non-recurring due for completion during 2023/24. As detailed in Appendix 1, all actions are progressing or are complete with exceptions and delays in delivery outlined in the table below.

P4-A1	Review of admission agreement	31/12/2022	Information to be finalised and shared with Fund Actuary for review, will need to be extended, discussion required between Officers and Fund Actuary to agree amended date
P4-A2	Review of employer guarantees	31/12/2022	As above re P4-A1
P5-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	30/09/2024	Continuing to progress, been impacted by the valuation requirements and will be further impacted through the recalculations required following settlement of the Pay Award for Scottish Borders Council. Will continue to progress, however, new target date
P7-A1	Implementation of workflow	31/12/2023	These are under consideration as part of the Stewardship Code and Governance Review, amend delivery dates will be required
P7-A2	Implementation of i-Connect	31/12/2023	A above re P7-A1

5 IMPLICATIONS

5.1 Financial

There are no financial implications to this report.

5.2 Risk and Mitigations

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

5.3 Integrated Impact Assessment

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

5.4 Sustainable Development Goals

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

5.5 Climate Change

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

5.6 Rural Proofing

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

5.7 Data Protection Impact Statement

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

5.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

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

Approved by

Name: Suzy Douglas **Signature**

Title: Director of Finance & Procurement

Author(s)

Name	Designation and Contact Number
Suzy Douglas	Director of Finance & Procurement
Ian Angus	HR Shared Services Manager

Background Papers: Pension Fund Business Plan 2023/24 – 2025/26

Previous Minute Reference: Joint meeting Pension Fund Committee and Pension Fund Board, 22 June 2023.

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

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

Appendix 1

What we want to achieve ... (Objective)

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

How?		Key Tasks	PI ref.	By whom?	By when?			IIA
Action No.	How we will achieve our objective ... (Action)			Owner	23/24	24/25	25/26	
P 1	Review Pension Strategies informed by 2023 Triennial Valuation Results	Monitor and report investment performance	P1-A1	P&I Manager	•	•	•	
		Undertake and complete Triennial valuation.	P1-B1	HRSS Manager	•			•
		Approval and implementation of 2023 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P1-C1	HRSS Manager				
			P1-C2	P&I Manager	•	•	•	•
P 2	Maximise investment performance	Review Strategic asset allocation following completion of 2023 valuation	P2-A1	P&I Manager		•		
		Implementation of approved strategic asset allocation	P2-B1	P&I Manager	•	•		
			P2-B2					

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

What we want to achieve ... (Objective)

Deliver a High-Quality Pension Service to Members

How?			By whom?	By when?			IIA
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref. Owner	23/24	24/25	25/26	
P 3	Develop and Implement an effective Communication Strategy for the Pension Fund						
		Review Communication Strategy and Action Plan in line with best practice and technological advancements	P3-A1 HRSS Manager	●	●	●	●
		Continue to proactively manage and engage Pension Fund Employers	P3-A2 HRSS Manager	●	●	●	
		Review all forms and communication material, including annual benefit statements	P3-A3 HRSS Manager P3-A4 P&I Manager	●	●	●	●
		Annual Newsletter	P3-A5 HRSS Manager P&I Manager	●			
P 4	Ensure stability of Employers						
		Review of Employer covenants	P4-A1 HRSS Manager P4-A2	●			
P 5	Ensure accuracy of Pension Records						
		Complete full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC	P5-A1 HRSS Manager P5-A2	●			
		Consider the implications of the McCloud case	P5-A3 HRSS Manager	●			
		Consider the implications of the Goodwin case	P5-A4 HRSS Manager	●			
		Information requirements for Dashboard	P5-A5 HRSS Manager	●	●		
		Review Overpayment Policy	P5-A6 HRSS Manager	●			
		Review Privacy Notice	P5-A7 HRSS Manager	●			
P 6	Promotion of self-service facility						
		Promotion and Improvement of self-service facility	P6-A1 HRSS Manager P6-A2	●			

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

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Non-recurring	Qtr	Ann
P3- A1	Review of Communications strategy and action plan	30/09/2023			•
P3-A2	Hold Annual Employer Liaison Meeting	1 meeting by 31/03/2024			•
P3-A3	Annual review of all forms, communication material, including annual benefit statements	31/08/2023			•
P3-A4	Development and publication of newsletter for publication and inclusion on Pension Fund website	31/12/2023		•	
P4-A1	Review of admission agreement	31/12/2023	•		
P4-A2	Review of employer guarantees	31/12/2023	•		
P5-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	30/09/2023	•		
P5-A2	Review of Common and Specific Data following annual review and return to The Pension Regulator.	31/12/2023			•
P5-A3	Review all guidance and communication on McCloud case implications	31/03/2024	•		
P5-A4	Review all guidance and communication on Goodwin case implications	31/03/2024	•		
P5-A5	Review all guidance and communication of Pensions Dashboard, engaging with Pension Admin system provider as necessary	31/12/2025			•
P5-A6	Review Overpayment Policy to ensure appropriate governance arrangements are in place	30/09/2023			•
P5-A7	Review the Privacy Notice to ensure this is in line with current data requirements	31/12/2023			•
P6-A1	Promotion of self service to all active and deferred members	31/08/2023			•
P6-A2	Implementation of updated version of Self Service on a like for like basis	31/12/2023	•		
P6-A3	Consider additional enhancements being developed for Self Service	31/12/2023	•		
P7-A1	Implementation of workflow	31/12/2023	•		
P7-A2	Implementation of i-Connect	31/03/2024	•		

P7-A3	Digitisation of historical records	30/06/2024	•	
P7-A4	Promotion of online payslips and P60's	31/03/2024		•

What we want to achieve ... (Objective)

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

How? Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	By whom? Owner	By when?			EIA
					23/24	24/25	25/26	
P 8	Continue to develop robust governance and risk management							
		Review and update Governance Policy and Compliance Statement	P8-A1	P & I Manager	•	•	•	•
		Develop and deliver 2023/24 Training Programme	P8-A2 P8-A4	P & I Manager	•			
		Implement monitoring per Responsible Investment Policy	P8-A5 P8-A6	P & I Manager	•			
		Review and update Pensions Administration Strategy	P8-A3	HRSS Manager	•	•	•	•
		Ensure the Pension Fund in prepared to meet any future reporting requirements from the Stewardship Code 2020	P8-A7 P8-A8	P & I Manager	•	•		
		Implementation of The Pension Regulator "Single Code"	P8-A9 P8-A10	HRSS Manager P&I Manager	•			
P 9	Review services provided by IT providers to ensure data is secure and adheres to cyber security requirements							
		Implement annual assurance requirement for IT providers	P9-A1 P9-A2 P9-A3	HRSS Manager	•	•	•	•
P 10	Review services provided externally to ensure that these represent best value to the Fund							
		Undertake procurement exercise for Custodian	P10-A1	P & I Manager	•			
		Undertake procurement exercise for Actuary	P10-A2	HRSS Manager P&I Manager		•		

Under review of provision of Pension Administration system

P10-A3 HRSS Manager

•

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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Non Recurring	Qtr	Ann
P8-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement	30/06/2023			•
P8-A2	Pension Fund Committee approval of Training Policy and Training Programme 2023/24	30/06/2023			•
P8-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/2023			•
P8-A4	Training Needs Self-Assessment Levels from 2022/23 to 2023/24	30/06/2023			•
P8-A5	Agree Action plan for implement of Responsible Investment monitoring	30/06/2023	•		
P8-A6	Provide revised responsible investment monitoring report format	31/12/2023			•
P8-A7	Undertake review of Stewardship Code 2020 and recommendations for adherence	31/12/2023			•
P8-A8	Implement recommendation from Stewardship Code review	30/09/2023	•		
P8-A9	Undertake review of TPR Single code and highlight changes required to meet the new code	30/09/2023	•		
P8-A10	Implement changes required to meet code requirements	31/12/2023	•		
P9-A1	Request assurance of cyber security policy being in place from Aquila Heywood on an annual basis	30/09/2023			•
P9-A2	Request assurance of cyber security policy being in place from CGI on an annual basis	30/09/2023			•
P9-A3	Request assurance of cyber security policy being in place from Hymans Robertson on an annual basis	30/09/2023			•
P10-A1	Undertake procurement exercise for Custodian	30/09/2023	•		
P10-A2	Undertake procurement exercise for Actuary	31/12/2024	•		
P10-A3	Undertake review of provision of Pension Administration system	31/03/2023	•		



PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2023

Report by Director of Finance and Procurement

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

12 December 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 30 September 2023 including projections to 31 March 2024.**
- 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 22 June 2023 following the recommendations within the CIPFA accounting guidelines headings. This report is the second quarterly monitoring report of the approved budgets.
- 1.4 The total expenditure to 30 September 2023 is £3.161m with a projected total expenditure of £6.967m which is line with approved budget.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee: -

- (a) Notes the actual expenditure to 30 September 2023; and**
- (b) Agrees the projected out-turn as the revised budget.**

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 22 June 2023 for 2023/24. The approved budget follows the Local Government Pension Scheme management costs guidance issued by CIPFA into the following 3 categories.

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

4 MONITORING TO 30 SEPTEMBER 2023

- 4.1 The table below shows the expenditure to 30 September 2023, projected out-turn to 31 March 2024 and current approved budget for 2023/24.

	Expenditure to 30 September 23 £000's	Projected to 31 March 24 £000's	2023/24 Budget	2023/24 Variance £000's
Investment Management	2,833 (Please see 4.2)	6,008	6,008	0
Administration	114	474	474	0
Oversight & Governance	214	485	485	0
Total	3,161	6,967	6,967	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 first quarter's

investment management fees are not complete in that a number of investment managers have not provided their fees for the quarter to 30 September 2023.

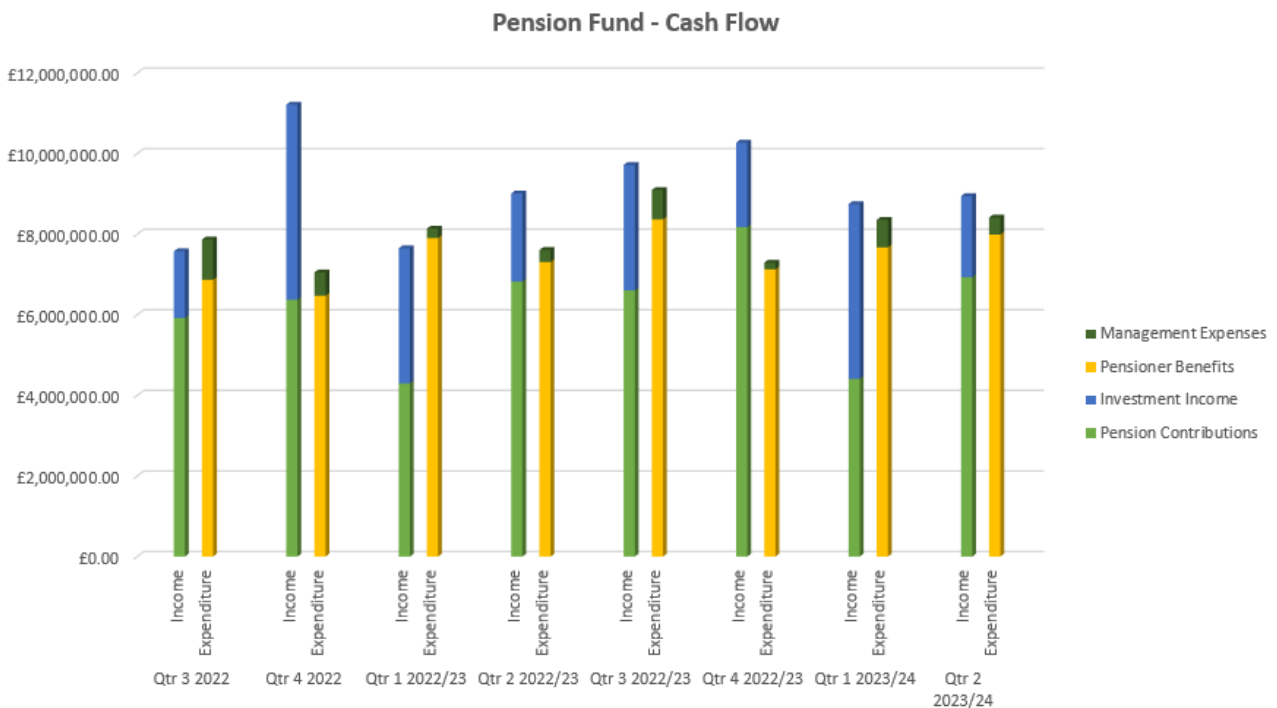
4.3 Included within the Oversight & Governance outturn above are costs of £37,100 in relation to additional Isio support costs to assist with management of the Pension Fund during 2023/24.

5 CASHFLOW MONITORING

5.1 A key objective of the Fund is to ensure the funds are in place to pay the members benefits. The Fund has been a mature fund since 2013/14 with the number of pensioners and their dependants exceeding contributing members. This in turn has resulted in the monthly cash out goings for pension benefits and expenses being higher than the contributions collected from active members.

5.2 To ensure the Fund continues to meet its primary objective the investment strategy approved by Committee incorporates an element of income generating assets to supplement member and employer contributions. These income generation assets are expected to enable the cash flow requirements of the Fund to be fully met without the requirement to disinvest from assets.

5.3 The graph over reflects cash expenditure for pension benefits, investment manager fees and operational costs of the Fund on a quarterly basis from July 2022 to September 2023. 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 quarter with surplus income and others with deficits. However, over the 24 month period shown the total cash received was £73.1m, cash expenditure was £63.8m, resulting in a cash surplus of £9.3m 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 manager the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks are managed in line with the Corporate Risk Management framework, with risks and controls monitored and reported on a quarterly basis.

6.3 Integrated Impact Assessment

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

6.4 Sustainable Development Goals

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

6.5 Climate Change

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

6.6 Rural Proofing

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

6.7 Data Protection Impact Statement

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

6.8 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications are being consulted and any comments received will be reported to the meeting.

Approved by

Name **Suzy Douglas** **Signature**
Title **Director of Finance and Procurement**

Author(s)

Name	Designation and Contact Number
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Background Papers: Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 22 September 2023

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

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Scottish Borders Council Pension Fund

Responsible Investment Metrics and Targets Report

November 2023

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Introduction

- This report provides the annual update on the Responsible investment metrics and targets which the Committee agreed to in 2022.
- We consider monitoring this information as best practice and it is also required for ongoing alignment to the 2020 UK Stewardship Code. It is also expected to be required to comply with upcoming TCFD regulation for LGPS Funds.
- The metrics outlined in this report were selected with TCFD in mind and so have a climate focus.
- The report documents each investment manager's ability to report on the Committee's agreed metrics and the current portfolio position as at 30 June 2023, compared to the position as at 30 June 2022.
- These results should be used to assess the Fund's progress relative to target, guide decision making, and is expected to feed into investment strategy discussion and considerations going forward
- This is the second time this report has been produced for the Fund and it is expected to be updated annually going forward.
- We expect the metrics monitored and the position shown in the report to evolve over time

Background

The Committee has received training on RI & TCFD metrics



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In August 2022, the Committee received training including:

- A recap on Responsible Investment considerations, climate science and TCFD regulations
- The importance of monitoring ESG metrics
- The various environmental and climate related metrics that can be monitored

What is likely to be required?



Although LGPS are not yet in scope for TCFD, we believe, in line with occupational pension scheme regulations, best practice would be to monitor:

- Two greenhouse gas metrics,
- One portfolio temperature alignment metric
- An additional climate change metric

These should be collected and monitored annually, with at least one target set for one of the metrics.

Purpose of this report



This report details the results of the Fund's second annual Responsible Investment Metrics and Targets assessment.

It documents each investment manager's ability to report on the required metrics and their current position.

These results should be used to guide decision making and any action taken as a result should be documented.

Responsible Investment Metrics - Recap

Total greenhouse gas emissions (Scope 1 & 2)

Total amount of greenhouse gas emissions emitted by the underlying portfolio companies, attributed to the investor based on the total investment in each company.

Carbon footprint (Scope 1 & 2)

An intensity measure of emissions that assesses the level of greenhouse gas emissions arising from a £1 million investment in a company.

Implied Temperature Rise (ITR)

The temperature pathway the mandate aligns to, expressed as a projected increase in global average temperatures by the end of the century.

A Paris-aligned strategy should have an ITR of 1.5°C.

Climate Related Engagement

The number of companies within the portfolio for which engagement or voting on climate-related risk and opportunities has been a substantive topic over the course of the previous 12 months.

- The Committee agreed to adopt a target of “relative improvement” as opposed to absolute or fixed targets – with this to be reviewed over time.

Scope 1 & 2 Emissions (1)

Green: Improvement in metrics
Orange: Broadly the same **Red:** Deterioration in metrics

Manager	Asset Allocation (30 June 2023)	Total GHG Emissions (Scope 1 & 2)				Carbon Footprint (Scope 1 & 2)				Data Quality (Scope 1 & 2)				
		30 June 2022		30 June 2023		30 June 2022		30 June 2023		30 June 2023				
		tCO ₂ e	Coverage	tCO ₂ e	Coverage	tCO ₂ e/ £1m of EVIC	Coverage	tCO ₂ e/ £1m of EVIC	Coverage	Verified	Reported	Estimated	Unavailable	Progress vs 2022
BG GAPA	13%	1,502.1	98%	1,117.2	99%	26.0	98%	10.2	99%	-	81%	17%	1%	
BG UK	4%	820.7	94%	1,242.6	96%	12.3	94%	40.1	96%	-	91%	5%	4%	
MS Global Sustain	11%	514.6	98%	365.8	100%	4.9	98%	3.7	100%	-	70%	30%	-	
LGIM FW	11%	- ¹	-	3,170.7	99%	31.2	96%	33.0	99%	-	95%	3%	1%	
LGIM Crown Multi Alternatives	5%	3,088.1	80%	1,361.8	67%	46.0	80%	34.7	67%	-	36%	32%	33%	
Blackrock LLP ^{3 5}	12%	-	-	-	-	-	-	-	-	-	-	-	100%	Can't report Scope 1 & 2
M&G AOF	14%	8,277.7 ²	52%	5,587.3 ²	60%	60.5	52%	157.5	60%	-	53%	7%	40%	
M&G UK ILG ⁶	5%	-	-	94.3 ²	3%	-	-	62.8	3%	-	3%	-	97%	
Macquarie MIDF2 ⁵	3%	-	-	7,910.5 ²	100%	-	-	242.0	100%	-	-	100%	-	
Macquarie MSIG ⁵	2%	-	-	28,905.4 ²	100%	-	-	1729.3	100%	-	-	100%	-	
IFM GIF ⁵	4%	-	-	3,757.9 ²	100%	-	-	101.0 ⁴	100%	-	100%	-	-	New mandate

Source: Investment managers.

Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered. The managers are not scaling up emissions where coverage is not 100%.

¹ As of December 2022, LGIM are now able to provide this metric, but were unable to provide as at 30 June 2022. ² IFM, Macquarie and M&G total carbon emissions are estimated from total fund emissions, based on the Scottish Borders Pension Fund's investment proportion of the overall funds.

³ We uncovered an issue with Blackrock with the carbon emission metrics reported in 2022. Given the fund is solely investing in properties that are 100% indirectly managed, the nature of the tenants' operational control and the Full Repairing and Insuring (FRI) lease agreements in place, greatly limits Blackrock's ability to directly collate environmental performance information across the Fund. As such, BlackRock are unable to provide Scope 1 & 2 carbon emissions metrics. Blackrock reported Scope 3 GHG absolute emissions of 13,479.5 tCO₂e at the overall fund level, which based on the Fund's proportion of the overall mandate, equates to c. 1,357.4 tCO₂e at investor-level and Scope 3 carbon footprint of 13.4 tCO₂e per £1m investment. ⁴ IFM report carbon footprint based in USD. ⁵ Data is provided as at 31 December 2022 and 2021 respectively, given more illiquid nature of the mandates. ⁶ M&G report in line with the Carbon Emission Template (CET) which currently does not require reporting of data on UK sovereigns, therefore the coverage of the M&G UK ILG gilt fund is very low, they are looking to enhance this in due course.

Scope 1 & 2 Emissions (2)

Green: Improvement in metrics
Orange: Broadly the same **Red:** Deterioration in metrics

Manager	Asset Allocation (30 June 2023)	Total GHG Emissions (Scope 1 & 2)				Carbon Footprint (Scope 1 & 2)				Data Quality (Scope 1 & 2)				
		30 June 2022		30 June 2023		30 June 2022		30 June 2023		30 June 2023				
		tCO ₂ e	Coverage	tCO ₂ e	Coverage	tCO ₂ e/£1m of EVIC	Coverage	tCO ₂ e/£1m of EVIC	Coverage	Verified	Reported	Estimated	Unavailable	Progress vs 2022
Partners Group DL (2016) ²	0%	-	-	42.8 ¹	32%	-	-	26.9	32%	-	32%	-	68%	
Partners Group DL (2018) ²	1%	-	-	13.5 ¹	15%	-	-	4.0	15%	-	15%	-	85%	
Partners Group DL (2020) ²	4%	-	-	1.9 ¹	4%	-	-	0.3	4%	-	4%	-	96%	
Permira Fund III ²	1%	504.9 ¹	100%	308.5 ¹	100%	40.0	100%	27.4	100%	-	49%	51%	-	Started drawing
Permira Fund V ²	2%	-	-	582.7 ¹	100%	-	-	34.4	100%	-	29%	71%	-	
Not covered	9%	-	-	-	-	-	-	-	-	-	-	-	100%	-
Total Portfolio	100%	14,708.1	40%	54,462.8	62%	29.8	50%	99.6	62%	0%	46%	16%	38%	

Source: Investment managers.

Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered. The managers are not scaling up emissions where coverage is not 100%.

¹Partners Group and Permira total carbon emissions are estimated from total fund emissions, based on the Scottish Borders Pension Fund's investment proportion of the overall funds. ²Data is provided as at 31 December 2022 and 2021 respectively, given more illiquid nature of the mandates.

Additional climate metrics (1)

Green: Improvement in metrics
Orange: Broadly the same **Red:** Deterioration in metrics

Manager	Asset Allocation (30 June 2023)	Implied Temperature Rise				Climate-related Engagements			
		30 June 2022		30 June 2023		30 June 2022		30 June 2023	
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage
BG GAPA	13%	-	-	1.8°C	96%	15	100%	25	100%
BG UK	4%	-	-	2.2°C	83%	4	100%	7	100%
MS Global Sustain	11%	1.8°C	98%	1.6°C	99%	18	100%	16	100%
LGIM FW	11%	2.7°C	96%	2.7°C	98%	241	100%	335	100%
LGT Crown Multi Alternatives	5%	-	-	-	-	-	-	-	-
Blackrock LLP ³	12%	-	-	-	-	-	-	-	-
M&G AOF	14%	3.2°C ¹	51%	2.6°C ¹	65%	11	100%	2	100%
M&G UK ILG	5%	-	-	2.1°C ¹	6% ²	-	-	-	-
Macquarie MIDF2 ³	3%	-	-	-	-	-	-	-	-
Macquarie MSIG ³	2%	-	-	-	-	-	-	-	-
IFM GIF ³	4%	-	-	1.5°C	100%	-	-	24	100%

Source: Investment managers.

Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered.

¹ In 2022, M&G provided a chart without data points, so this figure is estimated. Latest data is provided by the manager using Aladdin Climate, including issuer targets via SBTi and CDP. ² The ITR is based off the corporate part of the fund, which makes up 5.83%. The coverage therefore for corporates is 100% although as this is only based on two issuers the ITR is subject to high volatility and therefore should be ingested with caution. ³ Data is provided as at 31 December 2022 and 2021 respectively, given more illiquid nature of the mandates.

Additional climate metrics (2)

Green: Improvement in metrics
Orange: Broadly the same **Red:** Deterioration in metrics

Manager	Asset Allocation (30 June 2023)	Implied Temperature Rise				Climate-related Engagements			
		30 June 2022		30 June 2023		30 June 2022		30 June 2023	
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage
Partners Group DL (2016) ¹	0%	-	-	-	-	-	-	-	-
Partners Group DL (2018) ¹	1%	-	-	-	-	-	-	-	-
Partners Group DL (2020) ¹	4%	-	-	-	-	-	-	-	-
Permira Fund III ¹	1%	-	-	-	-	-	-	-	-
Permira Fund V ¹	2%	-	-	-	-	-	-	-	-
Not covered	9%	-	-	-	-	-	-	-	-
Total Portfolio	100%	2.6%	29%	2.1°C	50%	290	50%	409	56%

Source: Investment managers.

Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered.

¹ Data is provided as at 31 December 2022 and 2021 respectively, given more illiquid nature of the mandates.

Conclusions

1 Total Greenhouse Gas emissions for the Portfolio is **54,463 metric tonnes (tCO₂e)**.

This is an increase of 39,755 tCO₂e from the 2022 analysis, with an adjusted reported figure of 14,708 metric tonnes (tCO₂e). This is largely the result of increased coverage and data reporting across the portfolio, with improvement seen across individual funds.

2 Weighted average Carbon Footprint for the portfolio is **99.6 metric tonnes per £1 million investment¹**.

Similarly, as a result of improved coverage across the portfolio, this has increased from the 2022 analysis of 29.8 metric tonnes per £1 million investment¹ (adjusted), with improvements seen at individual mandate level.

3 Implied Temperature Rise figures provided by managers ranged from alignment to a **1.5°C to 2.7°C** temperature rise by the end of the century (compared to a range of **1.8°C to 3.2°C** in 2022).

The portfolio level figure calculated for 2023 was **2.1°C**. The Implied Temperature Rise at portfolio level as at June 2023 reduced by **0.5°C**, from **2.6°C** which was reported in 2022.

4 There were **409** individual **Climate-related Engagements** with companies within the portfolio, where managers were able to report.

This is an increase of 119 from the 2022 figure of 290 climate engagements.

Highest Emitters

From an absolute emissions perspective, the **biggest emitters** in the portfolio are **Macquarie (particularly sub-investment grade), M&G AOF, and IFM**. These three most high emitting funds also report the highest **carbon footprint**. Followed by **LGIM** and **LGT** on an absolute basis only.

We recommend that we continue to engage and monitor these managers.

Targets

As previously noted, the Committee agreed to adopt a target of "**relative improvement**" as opposed to absolute or fixed targets.

The analysis shows that the data coverage and reporting across the portfolio has improved significantly over the last year, and we expect recent investments to have improved the metrics shown.

Data availability

All managers are now able to report carbon emissions metrics, although there are still clear **gaps in the data**, for example **Partners Group and M&G UK Index Linked Gilt Fund low coverage levels** and a number of managers unable to report on some of the requested metrics (e.g. ITR).

We recommend continuing to engage with them on data availability and quality.

Next Steps

We recommend the Committee:

- Continue to assess the position on a regular basis, we propose annually, both in terms of continued appropriateness of metrics monitored and if the targets set are being met.
- Engage with the managers of the highest emitting mandates to assess their direction of travel and consider whether any further action is needed.
- Engage with managers to continue to drive improvements in data availability and reporting quality.
- Consider whether the current targets remain appropriate or if any changes are required. Review when LGPS regulatory guidance becomes clear and once data quality and coverage improves sufficiently.
- Use the information contained within this report for the 2020 UK Stewardship Code and TCFD compliance. While not yet a requirement, the Fund could publish a TCFD report ahead of legislation, which would be considered best practice and a further positive step for the UK Stewardship Code.

Q1 2024 Committee meeting Responsible Investment item:

- ESG/Climate Impact Assessment

Additional Information

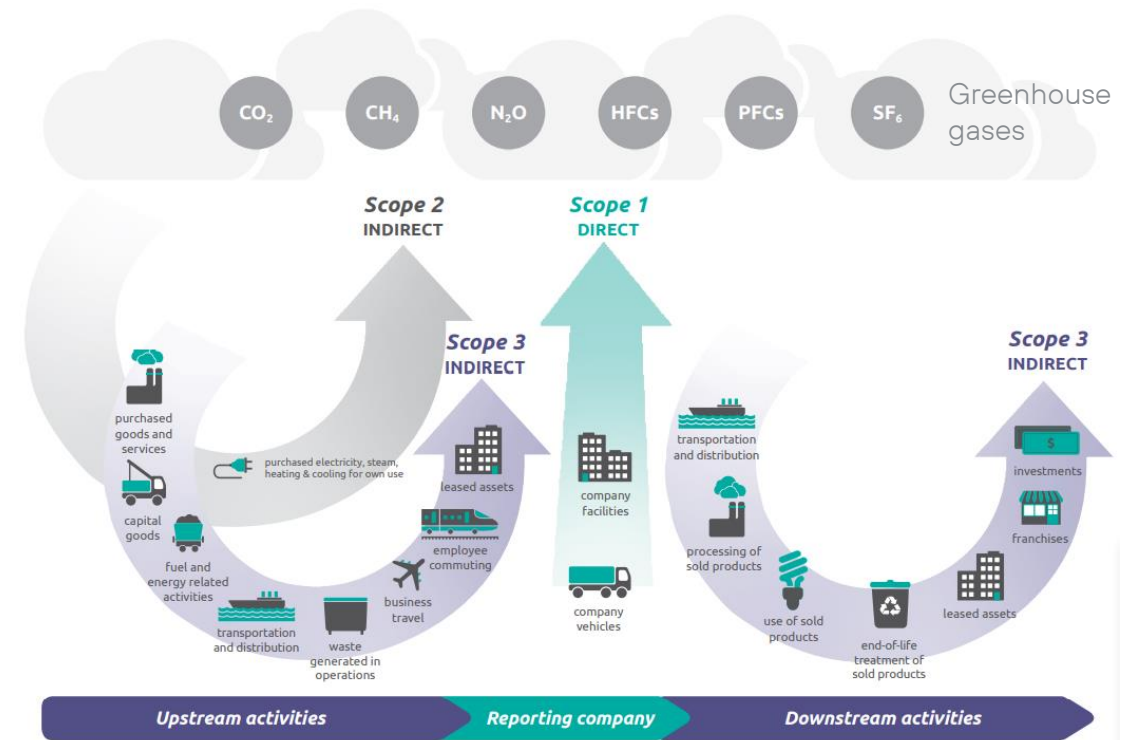
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Emission Metrics – Further Information

There are a number of economic activities that result in the release of **greenhouse gases** ('GHGs') into the atmosphere, this primarily happens as a result of burning fossil fuels for energy, travel and manufacturing. Reducing the amount of GHG within the atmosphere is a key factor for controlling **global warming** and the corresponding physical impacts of climate change.

The GHG emissions from the activities of a particular company can be split across three levels (illustrated right).

- **Scope 1** - direct emissions from company owned or controlled sources – e.g. fuel used in company vehicles.
- **Scope 2** - indirect emissions from the generation of purchased energy – e.g. purchasing electricity to run factory.
- **Scope 3** - all indirect emissions that occur in the value chain – this includes emissions generated from the production of purchased goods and services and the use of sold products.
- There are currently industry-wide issues with reporting Scope 3.



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