Public Document Pack

PENSION FUND COMMITTEE AND PENSION BOARD
MONDAY, 4 MARCH 2024

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held in the

COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS AND VIA

MICROSOFT TEAMS on MONDAY, 4 MARCH 2024 at 2.30 PM.

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,

26 February 2024

BUSINESS		
1.	**Apologies for Absence**	
2.	**Order of Business**	
3.	**Declarations of Interest**	
4.	**Minute** (Pages 5 - 14) Minutes of Meetings held on 12 December 2023 and 17 January 2024 to be noted and signed by the Chairman. (Copies attached).	2 mins
5.	**Funding Strategy Statement** (Pages 15 - 56) Consider report by Director Finance and Procurement. (Copy attached.)	5 mins
6.	**Triennial Valuations as at 31 March 2023** (Pages 57 - 98) Consider report by Director Finance and Procurement. (Copy attached.)	15 mins
7.	**Statement of Investment Principles 2024** (Pages 99 - 138) Consider report by Director Finance and Procurement. (Copy attached.)	5 mins
8.	**Pension Administration Staffing** (Pages 139 - 154) Consider report by Director People, Performance and Change. (Copy attached.)	5 mins
9.	**Pension Fund Risk Register Update** (Pages 155 - 164) Consider report by Chief Officer Audit and Risk. (Copy attached).	10 mins

10.	**Risk Management Policy and Strategy for the SBC Pension Fund** (Pages 165 - 186) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
11.	**Pension Fund Budget Monitoring to 31 December 2023 and Budget 2024/25** (Pages 187 - 194) Consider report by Director Finance and Procurement. (Copy attached.)	5 mins
12.	**Internal Audit Annual Plan 2024/25 for the Scottish Borders Council Pension Fund** (Pages 195 - 202) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
13.	**External Audit Plan 2023/24** (Pages 203 - 218) Consider draft Annual Audit Plan 2023/24 by Audit Scotland. (Copy attached.)	10 mins
14.	**ESG Impact Assessment 2023 Annual Report** (Pages 219 - 262) Consider report by Isio. (Copy attached.)	5 mins
15.	**Pensions Administration Strategy** (Pages 263 - 294) Consider report by Director People, Performance and Change. (Copy attached.)	5 mins
16.	**Governance Action Plan** (Pages 295 - 302) Consider report by Director Finance and Procurement. (Copy attached.)	5 mins
17.	**Information Update** (Pages 303 - 304) Consider Briefing Paper by Director Finance and Procurement. (Copy attached.)	5 mins
18.	**Any Other Items Previously Circulated**	
19.	**Any Other Items which the Chairman Decides are Urgent**	
20.	**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.”	
21.	**Minute** (Pages 305 - 306) Private Section of Minute of Meeting held on 12 December 2023 to be noted and signed by the Chairman. (Copy attached).	2 mins
22.	**Navigating the Climate Transition** (Pages 307 - 318)	40 mins

	Training Session led by Tim Gooding of Baillie Gifford.	
23.	**Investment Performance Quarter to 31 December 2023** (Pages 319 - 368) Consider report by Isio. (Copy attached).	20 mins

NOTES

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

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

Membership of Committee:- Councillors D. Parker (Chairman) (Pension Fund Committee Member), L. Douglas (Pension Fund Committee Member, C. Hamilton (Pension Fund Committee Member), D. Moffat (Pension Fund Committee Member), S. Mountford (Pension Fund Committee Member), S. Scott (Pension Fund Committee Member), J. Pirone(Pension Board - Scheme Employer Member), Mr D Bell Pension Board - Scheme Member Representative), Mr A Daye (Pension Board - Scheme Employer Member), Mr M Drysdale Pension Board - Scheme Member Representative), Mr M Everett Pension Board - Scheme Member Representative), Ms K M Hughes Pension Board - Scheme Member Representative) and Ms K. Robb Pension Board - Scheme Employer Member)

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SCOTTISH BORDERS COUNCIL
PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND COMMITTEE AND PENSION BOARD held via Microsoft Teams on Tuesday, 12 December 2023 at 10.00am.

Present:-	Councillors D. Parker (Chairman), L. Douglas, D. Moffat, S. Mountford (Pension Fund Committee Members) Councillor J. Pirone, Mr A. Daye, Ms K Robb (Pension Board – Scheme Employer Representatives), Mr D. Bell, Mr M. Everett and Ms K M Hughes (Pension Board – Scheme Member Representatives)
Apologies:-	Councillors C. Hamilton and S. Scott
In Attendance:	Director – Finance and Procurement, Chief Officer – Audit and Risk, HR Shared Services Manager, Democratic Services Team Leader.
Also in Attendance:	Mr C Pringle (Isio), Mr A Ross (Isio), Mr A Singh, (Isio), Mr J Boyd and Ms S Harold (Audit Scotland)

1. **ORDER OF BUSINESS**
The Chair varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

2. **MINUTE**
There had been circulated copies of the Minutes of the Meetings held on 8 August and 22 September 2023.

DECISION
NOTED for signature by the Chairman.

3. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**
There had been circulated copies of the Minutes of the Meeting of the Pension Fund Investment and Performance Sub-Committee held on 25 August 2023

DECISION
NOTED for signature by the Chairman.

4. **PROGRESS ON DELIVERY OF INTERNAL AUDIT ANNUAL PLAN 2023/24 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND**
With reference to paragraph 5 of the Minute of the meeting held on 21 March 2023, there had been circulated copies of a report by the Chief Officer – Audit and Risk which provided an update on progress with the delivery of the Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund. Internal Audit was 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 included 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. Appendix 1 to the report provided 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 was provided by Scottish Borders Council's Internal Audit team. The continuous audit approach which was applied to Internal Audit work for the SBC Pension Fund enabled Internal Audit to provide added value advice on internal controls and governance and 'critical friend' consultancy services. The Chief Officer- Audit and Risk, Ms Jill Stacey, presented the report and outlined that the report had arisen from the recommendations of the Annual Plan for the Pension Fund. Members expressed their thanks for the report and highlighted that it was useful to see progress on individual items, in particular the frequency on which they were checked.

DECISION
AGREED to:-

(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; and**

(b) **note that there were no proposed changes to the Plan that required approval, though 20 days allocation had been utilised and a further 5 days was proposed for completion of Internal Audit work for the SBC Pension Fund to March 2024.**

5. **PENSION FUND RISK REGISTER UPDATE**

With reference to paragraph 3 of the Minute of the meeting held on 22 September 2023, there had been circulated copies of a report by the Chief Officer – Audit and Risk which provided an update on the review of the refreshed Pension Fund Risk Register, and an outline of next steps. 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 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. The report set out progress on the review of the refreshed Pension Fund Risk Register and outlined the next steps. The Chief Officer – Audit and Risk presented the report, confirming that significant work regarding the amalgamation of risks had been undertaken. Engagement with officers and risk specialists had been positive. Considerable lessons had been learned from the process of amalgamating and categorising of the risks which had previously been included on the register. Steps to develop a suitable Risk Management Policy for the Pension Fund were ongoing and would be progressed as part of the cycle of risk review activity. The Chief Officer confirmed that it was proposed that a smaller number or relevant range of risks would be presented at each quarterly meeting, with a standalone presentation of the full register planned for the March 2024 meeting. Members welcomed the proposed schedule of risk register presentations and commented that the schedule would be helpful in facilitating meaningful consideration and feedback on the risks. In response to a question regarding whether risks which had been categorised as high should be brought to all quarterly meetings, Ms Stacey indicated that she was happy to investigate whether it would be possible to incorporate regular discussions on such risks following discussions with the risk owners and to adjust the policy accordingly. Ms Stacey undertook to investigate incorporating the request that movements to risks would merit quarterly presentation within the policy principles.

DECISION
AGREED to:-

(a) **acknowledge that the formal full review of the risks in the refreshed Pension Fund Risk Register was approximately 80% complete and would continue;**

(b) **note that quarterly risk register updates would be presented to the Committee and Board; and**

(c) **note that a separate Risk Management policy and strategy for the Pension Fund would be developed for approval by the Committee and Board in March 2024.**

6. **GOVERNANCE REVIEW AND STEWARDSHIP CODE ACTION PLAN**

With reference to paragraph 7 of the Minute of the meeting held on 13 December 2022, there had been circulated copies of a report by the Director – Finance and Procurement which reviewed and sought approve the Pension Fund's Governance Review & Stewardship Code Action Plan. The Action Plan encompassed recommendations from the independently produced Governance Review report and the Fund's Stewardship Code report. It provided a high-level plan for how those would be progressed and implemented. It was accompanied by an annotated schedule for all the Governance Review recommendations. That outlined proposals for the Committee's consideration on which were agreed/actioned and those that should not (and why). It was proposed the work be delivered through a project management approach and the work had been structured into four workstreams. That would help provide additional focus and momentum, as well as regular project monitoring and reporting. However, a number of actions and timescales were dependent on the successful appointment to the Pension, Investment & Accounting Manager role. The Director – Finance and Procurement presented the report and introduced Pat Tomlin, who had undertaken work on behalf of the Pension Fund to review the Governance of the Fund and the Stewardship Code Action Plan. In response to a question regarding the recommendation to consider appointment of a single officer responsible for managing all pension functions, the Director outlined that the proposed Pensions, Investment and Accounting Manager's work would be dedicated to working on the Fund. Administration of the Fund would continue to be the responsibility of the HR Shared Services Manager. Regarding the appointment of a independent advisor, the Director confirmed that there whilst there was a desire to appoint an advisor resource had not been put in place at the current time. Work to progress through the Action Plan would continue, and it was hoped that the relevant team would be fully staffed for the start of the new financial year. In response to a question regarding how the schedule and the Action Plan should be interpreted, Ms Tomlin explained that the key documents was the Action Plan. The purpose of the schedule was to provide an audit trail for all of the recommendations made following the review. The Action Plan contained the work which had been restructured into work packages, with the schedule in place to back those up. Regarding the monitoring of the 'infrastructure/other real assets' mandate through Lothian Pension Fund, which was currently considered by the Pension Fund Committee rather than the Pension Fund Investment and Performance Sub-Committee, Ms Tomlin explained that the recommendation in the report was to place the responsibility for the monitoring of that mandate, like the other mandates, with the Sub-Committee.

DECISION

AGREED to:-

(a) approve the proposals in the 'Governance Recommendations – Agreement to Proceed?' schedule contained in Appendix 1 to the report;

(b) approve the Governance Review & Stewardship Code Action Plan contained in Appendix 2 to the report; and

(c) note and recognise the potential impact on plan timelines if the recruitment of the Pension, Investment and Accounting Manager was delayed further.

7. **BUSINESS PLAN PERFORMANCE UPDATE**

With reference to paragraph 7 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 update on delivery of the actions within the approved Business Plan. 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 were included in Appendix 1 to the report. 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. There were 16 non-recurring tasks due for completion during 2023/24. As detailed in Appendix 1 to the report, all actions were progressing or were complete with exceptions and delays in delivery outlined in the report. The HR Shared Services Manager, Mr Ian Angus, presented the report and highlighted the five actions which had been categorised as delayed or exceptions. Mr Angus outlined that since the publication of the report that the software standard functionality item had been processed without additional costs. In response to a question regarding custodian recruitment, the Director confirmed that the contract with the current custodian was being extended, with all of the details in the process of being finalised.

DECISION
AGREED:

(a) to note the progress of the 2023/24 actions within the business plan; and

(b) the revised target dates for the actions outlined in the report.

8. **PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2023**

With reference to paragraph 3 of the Minute of the meeting held on 22 September 2023, there had been circulated copies of a report by the Director – Finance and Procurement which provided an update position of the Pension Fund budget to 30 September 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 were 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 second quarterly monitoring report of the approved budgets. The total expenditure to 30 September 2023 was £3.161m, with a projected total expenditure of £6.967m which was line with approved budget. In response to a question regarding fluctuations to investment income in quarter 1 2023/24, the Director undertook to investigate but advised that the fluctuations likely formed part of normal market variations.

DECISION
AGREED:-

(a) to note the actual expenditure to 30 September 2023; and

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

(c) that the Director – Finance and Procurement investigate fluctuations to investment income in Quarter 1 2023/24.

9. **RESPONSIBLE INVESTMENT METRICS AND TARGETS REPORT**

9.1 With reference to paragraph 7 of the Minute of the meeting held on 22 September 2023 there had been circulated copies of a responsible investment metrics and targets report by Isio. The Chairman welcomed Mr Andrew Singh, Mr Alex Ross and Mr Charles Pringle of Isio to the meeting. Mr Singh confirmed that the metrics in the report had been selected with Task Force on Climate-Related Financial Disclosures (TCFD) regulations in mind. Mr Singh confirmed that whilst TCFD regulations had not yet been imposed on the Fund, it was expected that the would be in the future. The report documented each investment manager's ability to report on the agreed metrics and the current portfolio position as at 30 June 2024 compared to the position as at 30 June 2022. Mr Pringle, Isio's in-house analysts for climate, provided a summary of the key terms related to responsible investment and confirmed that the Fund had agreed to adopt a target of relative improvement, as opposed to absolute or fixed targets. An overview of the data was outlined with the majority of managers showing a reduction In absolute emissions and on a carbon footprint basis. Mr Pringle highlighted that the UK-aligned managers tended to be biased towards higher emitting companies, and it was not beyond expectation that the numbers involved could continue to rise over time. It was pointed out that LGT Crown Multi Alternatives coverage level had decreased, and Mr Pringle explained that was as a result of a change in asset class allocation and the treatment of insurance linked securities within the methodology approach. There had been a shift in the approach to how those securities were considered, with the picture presented now more accurate as a result. Overall coverage within the portfolio had improved, as there had been significant progress in the numbers being reported and the quality of the estimated data which had been provided. The numbers of climate-related engagements had varied from the previous year, and Mr Pringle outlined that whilst some managers had increased the number of engagements, others had not sustained the same levels or had undertaken a lower number.

9.2 The total greenhouse gas emissions of the portfolio was 54,463 metric tons, an increase of 39,755 metric tons from the 2022 analysis. That was largely was a result of the increased coverage and data reporting across the portfolio. Weighted average carbon footprint of the portfolio was 99.6 metric tonnes per £1m investment. That had increased from the 2022 analysis of 29.8 metric tonnes per £1m. Implied temperature rise figures provided by the managers ranged from alignment to a 1.5˚C to 2.7˚C temperature rise b the end of the century, compared to 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. There were 409 individual Climate-related Engagements with companies within the portfolio, where managers were able to report. That was an increase of 119 from the 2022 figure of 290 climate engagements. In response to a question regarding increasing coverage in the bonds market, Mr Pringle explained that coverage levels were improving as more fund managers were able to report on the metrics. It was not possible for some managers to report on sovereign elements, which had resulted in coverage being low. Mr Singh outlined that coverage varied considerably between different asset classes, however it was anticipated that coverage would increase over time. Members discussed whether or not it would be prudent to publish a Task Force for Climate Related Financial Disclosures compliance report, given that it was not required under the regulations. The Director – Finance and Procurement, confirmed that whilst there would be a cost associated with the production of the report, based on Isio's advice it was not expected to be unreasonably high. Members agreed to instruct Isio to undertake the work to prepare and publish a TCFD compliance report.

DECISION
AGREED:-

(a) to note the report; and

(b) to instruct Isio to use the information within the report to prepare and publish a Task Force on Climate-Related Financial Disclosures (TCFD) compliance report.

10. **SCOTTISH BORDERS PENSION FUND 2023 ACTUARIAL VALUATION**

There had been circulated copies of a presentation by Hymans Robertson LLP with the agenda. The Chairman invited Ms Julie West and Mr Jamie Baxter of Hymans Robertson to provide a presentation. Mr Baxter explained that triennial valuation was a key risk management exercise for the Fund which was carried out to calculate employer contribution rates; comply with legislation; analyse actual experience compared to assumptions; review the Funding Strategy Statement; and to undertake a continual check on Fund solvency. Since the previous valuation in 2020 there had been significant asset returns due to bounce-back from the Covid-19 associated market fall in February-March 2020, and a material fall in liability values in the second half of the inter-valuation period due to rising interest rates. Future investment return assumptions had a considerable bearing when calculating liabilities. Those returns were used to project forward asset values in modelling, and the same approach for the 2020 valuation had been used for 2023. There were higher return expectations in 2023 when compared to 2020 as a result of increases in global interest rates. That had a positive impact on the 2023 valuation results. Mr Baxter explained that Local Government Pension Scheme benefits increase with CPI inflation, which was used to project forward benefits and contributions in modelling. Ongoing uncertainty around high inflation had formed part of the risk-based approach, which had negatively impacted upon the 2023 valuation results. Mr Baxter provided a summary of longevity in the Scottish Borders, and explained that the assumptions had been tailored specially to Scottish Borders Council Pension Fund members. The key valuation assumptions at 2023 were presented, with a discount rate of 5.2% pa, benefit increases/CARE revaluation at 2.3% pa and salary increases at 3% pa. Those assumptions were robust and evidenced based. Ms West provided a summary of the whole fund funding level at 31 March 2023 compared to 31 March 2020. Liabilities had decreased from £650m to 649m, whilst assets had increased from £713m to £866m. The Funding Level had increased from 110% in 2020 to 134% in 2023. Ms West highlighted that the reported funding level did not directly drive employers' contribution rates. The funding position of the fund was stronger at 2023 than 2020, in particular due to the increase in future investment returns as a factor. Ms West provided an overview of the 3 steps to setting the funding strategy, which included the funding target, the time horizon, and the likelihood of success. Those circumstances allowed the Fund to manage risk. The Fund operated a Contribution Rate Stability Mechanism (CSM) for the Scottish Borders Council pool group of employers. Annual changes to rates were restricted to +/- 0.5% of pay. Ms West outlined that stabilisation took a long-term approach to setting contribution rates which cut through short-term funding "noise". The mechanism was an explicit one, documented in the FSS. The CSM was designed to keep contribution rates stable through the peaks and troughs of market cycles. Surpluses could be managed by reducing the employer contribution rate, changing the investment strategy, increasing prudent levels or retaining the surplus. The funding level excluded the cost of future service benefits. Ms West outlined the key factors which had been considered at the 2023 valuation, in particular the need to avoid a knee-jerk reaction to the significant increase in surplus. It was highlighted that almost all of the increase in surplus was due to changes in liability assumptions rather than actual investment performance. The cost of funding future service benefits must be met, with contribution rates reflecting fairness of costs between generations. Market conditions and economic variables, such as interest rates and inflation, were currently volatile. It was confirmed that the Fund prepares, maintains and consults on the Funding Strategy Statement in line with CIPFA guidance. The final decision on the Funding Strategy would be presented to the Committee for approval. In response to a question regarding an extra 0.5% provision in relation to the McCloud judgement, Ms West outlined that there was now less of a chance of benefit increases occurring as a result of the cost cop, and that the ramification of the McCloud case had been built into the overall liabilities. The Chief Officer – Audit and Risk confirmed that there the Audit team had engaged with Hymans Robertson regarding aspects of risk management and the range of assumptions.

DECISION
NOTED the presentation.

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

<u>SUMMARY OF PRIVATE BUSINESS</u>

12. **SCOTTISH BORDERS PENSION FUND 2023 ACTUARIAL VALUATION**
The Committee noted a presentation by Hymans Robertson LLP regarding the 2023 actuarial valuation.

13. **MINUTE**
The Committee considered the Private Minutes of the Meetings held on 8 August and 22 September 2023.

14. **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 25 August 2023.

15. **INVESTMENT PERFORMANCE QUARTER TO 30 SEPTEMBER 2023**
The Committee noted the Quarter 2 Investment Performance report by Isio.

The meeting concluded at 12.30 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 Wednesday, 17 January 2024 at 11.30am.

Present:-	Councillors D. Parker (Chairman), D. Moffat, S. Mountford, and S. Scott (Pension Fund Committee Members) Councillor J. Pirone, Mr A. Daye, Ms K Robb (Pension Board – Scheme Employer Representatives), Mr D. Bell, Mr M. Everett and Ms K M Hughes (Pension Board – Scheme Member Representatives)
Apologies:-	Councillors L. Douglas and C. Hamilton
In Attendance:	Chief Executive, Director – Finance and Procurement, Chief Officer – Audit and Risk, HR Shared Services Manager, Democratic Services Team Leader.
Also in Attendance:	Mr A Ross (Isio), Mr A Singh, (Isio), Ms E Carrigan (Audit Scotland)

1. **PENSION FUND EMPLOYERS (SCOTTISH BORDERS COUNCIL) CONTRIBUTION RATE**

There had been circulated copies of a report by the Director – Finance and Procurement which provides the details of a proposal for setting the Scottish Borders Council employers contribution rate from 2024/25 onwards. The report would be referred on to Scottish Borders Council to be considered as part of the 2024/25 financial planning process. As part of the key risk management activities of the Pension Fund, a triennial actuarial revaluation exercise was undertaken. That exercise ensured that the Fund complied with legislation, analysed actual experiences versus assumptions over the previous 3 year period, reviewed the funding strategy statement, was part of the continual health check on the solvency of the Fund and was used to calculate the employer contribution rates. The last triennial revaluation was undertaken by Hymans Robertson based on the position at 31st March 2020 when the fund was assessed as being 110% funded. On commencing the revaluation process for 2023, an assessment had been made on asset and liability movements since 2020 up to 31st March 2023. The Fund had experienced significant asset returns in the first half of the inter-valuation period, due to the bounce-back from the Covid-19 market fall in February/March 2020. That positive picture had been compounded by a material fall in liability values in the second half of the inter-valuation period due to rising interest rates. The most recent revaluation assessed the fund to be 134% funded. A range of scenarios considering contribution rates had been undertaken and based on those it was recommended that, in order to recognise the positive results from the triennial revaluation but to maintain an appropriate level of prudence, that the Scottish Borders Council contribution rate moved to 17% from 2024/25 through to 2027/28. That position would be kept under review annually. Members of the Pension Fund Committee welcomed the report and highlighted that the Fund had been well-managed through the valuation period. In response to a question regarding whether the recommendation in the report referred to all employers within the pool rate or solely SBC, the HR Shared Services Manager confirmed that all employers in the SBC pool would be covered by the change to 17%. In response to a question regarding what the capital saved from the lower contribution rate would be utilised for, the Director Finance and Procurement explained that the saving would be used to assist the council in its budget setting for 2024/25. It was stressed that the decision of the Committee had to be focused on the best interests of the Fund, and that the financial situation of SBC should not have a bearing on the setting of the contribution rate. The Chief Officer – Audit and Risk outlined that Hymans Robertson had taken into account a significant range of risk factors as part of their scenario modelling and that work would be reflected in the risk register accordingly.

DECISION
AGREED:-

(a) to note the revaluation process undertaken by Hymans Robertson;

(b) to note the contribution rate scenarios modelled; and

(c) that the requested level of contribution from the Scottish Borders Council pool rate from 2024/25 was 17%

The meeting concluded at 11.45 a.m.

FUNDING STRATEGY STATEMENT

Report by Director Finance and Procurement

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2024

1 PURPOSE AND SUMMARY

1.1 **This report proposes the adoption of the revised Funding Strategy Statement, along with the introduction of the Contribution Review Policy and Cessations Policy, following the completion of the 2023 Triennial Valuation.**

1.2 The Pension Fund is required by the Local Government Pension Scheme Regulations to have an up-to-date Funding Strategy Statement (FSS). The 2023 Triennial Valuation of the Fund has triggered a review and revision of the existing document.

1.3 The review of the FSS has been undertaken in collaboration with Hymans Robertson the Funds' Actuary, resulting in a change in the structure of the FSS and the creation of the Contribution Review Policy and the Cessations Policy as separate supporting documents, which will assist with reviewing these going forward as discrete policies.

1.4 All active employers within the Fund have been consulted on the proposed changes within the FSS and creation of the additional policies. Feedback received has been consider in conjunction with the Fund Actuary and updates made where appropriate.

1.5 The revised FSS, shown in **Appendix 1**, the new Contribution Review Policy, shown in **Appendix 2**, and the new Cessations Policy, shown in **Appendix 3**, have been developed to be transparent and to clearly set out the objectives of the Fund, the methodology used in the valuations and the key policies of the Fund in a number of areas.

2 RECOMMENDATIONS

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

(a) The Funding Strategy Statement;

(b) The Contribution Review Policy;

(c) The Cessations Policy.

3 BACKGROUND

3.1 It is a requirement of the Local Government Pension Scheme (Scotland) Regulations 2014 that the Pension Fund maintains a Funding Strategy Statement (FSS) and keeps this under review. The FSS must be reviewed and approved prior to the completion of each triennial valuation.

3.2 Guidance issued by CIPFA on preparing and maintain an FSS sets out the key elements to be included and the requirement to consult with appropriate parties.

3.3 The FSS provides the context for communication on funding, employer contribution rates and funding risks with scheme employers and other Pension Fund stakeholders. Additionally, the FSS provides employers with an understanding of their obligations to the Fund.

3.4 The FSS is required to provide sufficient detail on how the funding strategy and associated funding risks are managed in respect of the main categories of employer and other stakeholders.

3.5 As part of the previous triennial valuation, which concluded in March 2021, the FSS was reviewed to incorporate the Cessation Policy as a sub section within FSS.

4 FUNDING STRATEGY STATEMENT

4.1 **Appendix 1** contains the revised Funding Strategy Statement (FSS).

4.2 The review of the FSS has been undertaken in collaboration with Hymans Robertson the Funds' Actuary, resulting in a change in the structure of the FSS and the creation of the Contribution Review Policy, contained in **Appendix 2**, and the Cessations Policy, contained in **Appendix 3**, as separate supporting documents, which will assist with reviewing these going forward as discrete policies.

4.3 All active employers within the Fund have been consulted on the proposed changes within the FSS and separation into the additional policies. Feedback received has been considered in conjunction with the Fund Actuary and where appropriate changes have been made within the FSS and associated policies.

4.4 The separation of the two policies from the FSS remain in compliance with the CIPFA guidance. The creation of the two separate policies allow these to be considered both collaboratively or independently to the FSS, making this more concise and easier for the Fund employers to navigate.

5 IMPLICATIONS

5.1 **Financial**
There are no direct financial implications of this report. Any substantive changes arising from future actuarial valuations and revisions to funding

objectives and/or strategies could potentially have an impact on employers contribution rates.

5.2 **Risk and Mitigations**
This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks regarding the admission of any new employer organisation have been identified and form part of the considerations for admission to the Fund.

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 2018. 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 Director (People Performance and Change), the Director (Corporate Governance), the Chief Officer Audit and Risk, the Clerk to the Council and Corporate Communications and any comments received will need to be incorporated into the final report.

6.2 As part of the development of the FSS and separation into two discrete policies all active employers of the Fund have been consulted on the draft FSS and policies and comments have been considered in the finalisation of the FSS.

Approved by

Name **Suzy Douglas** **Director Finance and Procurement**

Author(s)

Name	Designation and Contact Number
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Background Papers:
Previous Minute Reference:

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

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Scottish Borders Council Pension Fund

Funding Strategy Statement

February 2023

Contents

1 Welcome to Scottish Borders Council Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for Scottish Borders Council Pension Fund.

The Scottish Borders Council Pension Fund is administered by Scottish Borders Council, known as the administering authority. Scottish Borders Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2024.

There's a regulatory requirement for Scottish Borders Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact pensions@scotborders.gov.uk.

1.1 What is the Scottish Borders Council Pension Fund?

The Scottish Borders Council Pension Fund is part of the Scottish Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to a Statement of Investment Principles (SIP) set by the administering authority. You can find the SIP at link.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy contained within the Statement of Investment Principles. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Scottish Borders Council Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations as they apply in Scotland.

Total employer contributions are made up of two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The fund permits the prepayment of employer contributions in specific circumstances. Please contact the Fund should you wish to consider the prepayment of contributions.

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

**** See Appendix D for further information on funding targets.***

Type of employer	Scottish Borders Council Pool	Other Scheduled Bodies	Community admission bodies	Transferee admission bodies
Funding target*	Ongoing	Ongoing	Low-risk exit basis	Ongoing
Minimum likelihood of success	80%	80%	50%	80%
Maximum time horizon	20 years	20 years	Average future working lifetime	In line with the letting authority
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon			

Secondary rate	% of pay	% of pay	Monetary amount if secondary rate is positive	Monetary amount if secondary rate is positive
Stabilised contribution rate?	Yes	Yes	No	No
Treatment of surplus	Covered by stabilisation arrangement		Permit reductions to primary contribution rate where calculated secondary rate is negative for closed employers	
Phasing of contribution changes	Covered by stabilisation arrangement		Up to 3 years	None

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for all employers who participate in the Scottish Borders Council Pool.

Table 2: current stabilisation approach

Type of employer	All stabilised employers
Maximum contribution increase per year	+1.5% of pay
Maximum contribution decrease per year	-1.5% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes. The administering authority may also permit a faster pace of contribution decreases where this meets the measures of success for funding strategy as set by the Fund's officers. Similarly, where those measures of success can't be met within the current stabilisation approach, the Fund may request a faster pace of contribution rate increases.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is [available at link. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though with the agreement of the Fund the payment can be spread over 5 years.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, a funding strain may arise. The impact on the employer's liabilities will be assessed at the next formal valuation which may result in an increase in contributions following the next formal valuation.

The Fund monitors ill-health strain amounts as they arise and will inform an employer where it is expected that a funding strain will arise due to ill-health early retirements.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

The fund tracks each individual employer's cashflows monthly, which are used to calculate employer's assets. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5.2).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

5.3 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

5.4 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The cessation policy is available from the administering authority.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority will obtain a revised rates and adjustments certificate showing the exit credit payable to the exiting employer.

Full details of the Fund's approach to cessation valuations can be found in the Fund's cessation policy available from the Administering Authority.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

More detail of the flexibilities available to employers on exit can be found in the Fund's cessation policy.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis based on liabilities at the formal valuation .

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers based on asset share.

Employers who leave the Fund following the offer of a guarantee from Scottish Borders Council will have their assets and liabilities pooled with the Council.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires that the Government Actuary's Department must report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers on each of the LGPS Funds in Scotland. This report is usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD and SPPA on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS) to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included issuing a draft version to participating employers and follow up meeting with Fund Actuary where requested.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.scottishborderscouncilpensionfund.org
- A copy included as part of Committee papers and available to all Committee and Board members including employee and pensioner representatives;
- A link to the document in the annual report and accounts of the Fund;
- Copies made available to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at www.scottishborderscouncilpensionfund.org

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all LGPS (Scotland) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the Statement of Investment Principles (SIP)

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers’ participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the Statement of Investment Principles (SIP) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the Statement of Investment Principles

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority’s own procedures

6 the SPPA/Scottish Ministers (assisted by the Government Actuary’s Department) and the Scottish LGPS Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is {{set out in the board terms of reference available [link]}}.

Details of the key fund-specific risks and controls are available by request from pensions@scotborders.gov.uk

C2 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities	Tax-raising or government-backed, no individual assessment required	n/a
College	A copy of audited accounts to be submitted, as soon as they are available, to confirm the internal controls they have in place for LGPS pension process in relation to our membership of the Scottish Borders Council Pension Fund.	Annual review on submission of audited accounts.
Admission bodies (including TABs & CABs)	A copy of audited accounts to be submitted, as soon as they are available, to confirm the internal controls they have in place for LGPS pension process in relation to our membership of the Scottish Borders Council Pension Fund.	Annual review on submission of audited accounts.

C3 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy.

The fund included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2023 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy Framework available at Link which includes details on Climate Change, this was last agreed by Pensions Committee in September 2021.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2023

		Annualised total returns									
		Cash	**Index Linked Gilts (medium)**	**Fixed Interest Gilts (Medium)**	**UK Equity**	**Overseas Equity**	**Property**	**A rated corporate bonds (medium)**	**Inflation (CPI)**	**17 year real govt yield**	**17 year govt bond**
5 Years	16th %ile	2.7%	0.3%	1.1%	-0.7%	-1.3%	-0.6%	1.2%	1.0%	-0.2%	3.1%
	50th %ile	3.5%	3.3%	3.3%	7.5%	7.3%	6.0%	4.0%	2.5%	0.7%	4.2%
	84th %ile	4.3%	6.5%	5.5%	15.9%	16.0%	13.4%	6.5%	4.1%	1.6%	5.5%
10 Years	16th %ile	2.5%	0.8%	2.4%	1.3%	1.1%	1.2%	2.7%	0.9%	-0.3%	2.7%
	50th %ile	3.6%	2.8%	3.7%	7.5%	7.3%	6.2%	4.3%	2.5%	0.9%	4.1%
	84th %ile	4.7%	5.1%	4.9%	13.5%	13.6%	11.5%	5.8%	4.1%	2.2%	5.9%
20 Years	16th %ile	2.3%	1.0%	3.3%	3.0%	2.8%	2.7%	3.7%	0.7%	-0.5%	1.4%
	50th %ile	3.7%	2.7%	4.1%	7.5%	7.4%	6.4%	4.7%	2.3%	1.3%	3.4%
	84th %ile	5.4%	4.5%	4.8%	12.0%	12.2%	10.3%	5.8%	3.9%	2.9%	5.9%
	Volatility (X yr)	0%	7%	6%	18%	19%	15%	8%	1%		

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Level of investment return with likelihood of success as below
Ongoing basis	All employers except closed community admission bodies	80%
Low-risk exit basis	Community admission bodies closed to new entrants	90%

Discount rate (for funding level calculation as at 31 March 2023 only)

For the purpose of calculating a funding level at the 2023 valuation, a discount rate of 5.2% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 80% likelihood that the fund's assets will achieve future investment returns of 5.2% over the 20 years following the 2023 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.3% pa on 31 March 2023.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.7% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2022 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies. The smoothing parameter used in the CMI model is 7.0.

A weighting of 0% has been applied to 2020 and 2021 data within the model to avoid overstating the impact of the covid-19 pandemic on future life expectancy. However a weighting of 25% has been applied for 2022 data reflecting emerging data on the longer term impact of the pandemic and a wider slow down in life expectancy improvements.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 85% for males and 60% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. The dependant of a male member is assumed to be 2 years younger than him and the dependent of a female member is assumed to be 3.5 years older than her, and partner dependants are assumed to be opposite sex to members.
Commutation	65% of maximum tax-free cash
50:50 option	0.0% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.21	267.99	578.87	0	0	0	0
25	117	0.21	177.02	382.37	0.11	0.02	0.13	0.02
30	131	0.26	125.57	271.22	0.21	0.03	0.23	0.03
35	144	0.30	98.09	211.87	0.41	0.14	0.46	0.15
40	154	0.51	78.93	170.49	0.62	0.26	0.69	0.24
45	164	0.86	64.58	139.50	0.99	0.51	1.09	0.49
50	174	1.37	50.03	108.06	1.86	1.31	2.59	1.45
55	179	2.15	48.05	103.80	5.83	4.52	4.67	3.11
60	184	3.86	42.80	92.45	9.91	6.97	3.87	2.65

Females

Incidence per 1000 active members per year					
Age	Salary scale	Death before retirement	Withdrawals	Ill-health tier 1	Ill-health tier 2

		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.11	256.99	372.67	0	0	0	0
25	117	0.11	172.88	250.69	0.16	0.13	0.09	0.1
30	131	0.16	144.88	210.09	0.21	0.18	0.12	0.13
35	144	0.27	124.95	181.2	0.41	0.34	0.24	0.25
40	154	0.44	103.93	150.70	0.61	0.51	0.36	0.37
45	164	0.71	85.55	124.06	0.82	0.68	0.48	0.5
50	174	1.04	65.19	94.53	1.5	1.23	1.11	1.13
55	179	1.37	60.98	88.43	5.47	4.43	2.32	2.35
60	184	1.75	49.03	71.10	11.52	9.3	2.38	2.4

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

The discount rate is set equal to a prudent estimate of investment returns, specifically, that there is an 90% likelihood that the fund's assets will future investment returns

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.3% pa on 31 March 2023

Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

For the purposes of determining any payment to be made on exit from the Fund, the Fund will determine a lower and upper bound of assets that they are aiming to hold to meet future liabilities. Where assets held are lower than the lower bound, a cessation payment will be requested from the employer. Where assets held are higher than the upper bound, an exit credit will be paid to the employer. Full details can be found in the Fund's cessation policy.

Scottish Borders Council Pension Fund

Policy on contribution reviews

Effective date of policy	1 April 2024
Date approved	[4 March 2024]
Next review	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 61 of the Local Government Pension Scheme (Scotland) Regulations 2018 sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 61 (6) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 61A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

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Scottish Borders Council Pension Fund

Policy on cessations

Effective date of policy	1 April 2024
Date approved	[4 March 2024]
Next review	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework and the fund's discretionary policies (see below).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, however is liable for any surplus through the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme (Scotland) Regulations 2018 contain relevant provisions regarding employers leaving the fund (Regulation 61) and include the following:

- Regulation 61 (2) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from, or the exit credit payable to, the exiting employer.

- Regulation 61 (3) – the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.

- Regulation 61 (4B-4G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 61 (5) – in instances where it is not possible to obtain additional contributions from the employer leaving the fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 61 (6) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 61 (7) – following the payment of an exit payment to/from the fund, no further payments are due to the fund from the exiting employer.

- Regulation 61B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2018 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 ("the Transitional Regulations") give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

These regulations relate to all employers in the fund.

2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.

- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.

- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers who are ultimately responsible for meeting any additional costs arising in respect of the pension obligations of ceased employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of any cessation debt.

3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine the amount of exit credit to be paid to the exiting employer in line with the Regulations.

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authority	Low risk basis[1]	Shared between other fund employers
College	Low risk basis[1]	Shared between other fund employers
Admission bodies ("TABs" – typically contractors)	Ongoing basis[2]	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies ("CABs" – typically any ABs other than contractors)	Low risk basis	Shared between other fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Risk-based cessation approach

The fund uses a risk-based approach to set employer funding strategies, including within cessation calculations. In particular, the likelihood of the fund's assets achieving particular future investment returns is analysed.

Where appropriate, the fund will use this approach to set an upper and lower amount (or "corridor") for the amount of assets a ceasing employer must leave behind to pay for its members' benefits.

Under this approach, if an employer's asset value in the Fund at the cessation valuation is:

- Within the corridor (which is calculated as part of the cessation valuation), then no there is no cessation debt due from the employer or cessation surplus payable to the employer.
- Lower than the corridor, then a cessation debt will be due from the employer.
- Higher than the corridor, then a cessation surplus may be payable to the employer (the surplus will be included in the Fund's considerations when determining if an exit credit is payable).

The upper bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using a future investment return assumption that is expected to be achieved in 95% of outcomes over the next 20 years (based on the Fund's investment strategy at the calculation date).

The lower bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using a future investment return assumption that is expected to be achieved in 85% of outcomes over the next 20 years (based on the Fund's investment strategy at the calculation date).

The Fund reserves the right to review the definition of the corridor as part of any review of this policy.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within three months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The fund proposes a legal document, setting out the terms of the exit payment agreement, to be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.

- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, the fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 61 (4B)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the fund actuary until the termination of the DDA.

The administering authority may consider a DDA in the following circumstances:

- The employer requests the fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The administering authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the administering authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.

- The fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the administering authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another fund employer, will they cease to accrue benefits within the fund, etc.).
- meet the cost of all fees and charges incurred by the Fund in the course of cessation including, but not limited to, the cost to obtain the cessation valuation report from the Fund Actuary and the cost of implementing a flexible repayment option (as set out in section 3.2).

4.2 Responsibilities of administering authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the fund).
- identify the party that will be responsible for the employer’s deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer’s membership.

- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy, including (where appropriate) the corridor amounts.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

TRIENNIAL VALUATION AS AT 31 MARCH 2023

Report by Director Finance and Procurement

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2024

1 PURPOSE AND SUMMARY

1.1 **This report details the results from the triennial valuation for the Scottish Borders Council Pension Fund as at the 31 March 2023 and proposes the employer contribution rates for the next three financial years.**

1.2 The full DRAFT Valuation Report prepared by the Fund Actuary, Hymans Robertson, is contained at **Appendix 1** and concludes that the Scottish Borders Council Pension Fund has a funding level of 134% as at 31 March 2023 compared to the previous 2020 valuation of 110%. This equates to a funding surplus of £218m.

1.3 The revised "Primary rate" calculated has reduced from 21.9% to 21.8% and the surplus has increased to £218m. The increase in surplus has allowed employer contributions for those in the Scottish Borders Council Pool, as presented and agreed at the joint meeting on 17 January 2024, to be reduced to 17.00% for the three years from 2024/25 to 2027/28.

1.4 Scottish Borders Housing Association (SBHA) and CGI are both operating as closed funds with new employees unable to join the fund. Due to this they are looked at on an individual basis with employer rates recommended by the Fund Actuary.

1.5 South of Scotland Enterprise (SOSE) were first admitted to the Fund in 2019 and in accordance with their admission agreement they are not within the Scottish Borders Council pool of employers. This employer has seen a significant increase in membership since the 2020 valuation was completed. They are also looked at on an individual basis with employer rates recommended by the Fund Actuary.

1.6 A range of scenarios considering contribution rates have been undertaken when determining the recommended rates outlined above for each employer, in order to recognise the positive results from the triennial revaluation but to maintain an appropriate level of prudence. The position of each employer will be kept under review annually.

2 RECOMMENDATIONS

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

(a) Notes the Fund Valuation Report as at 31 March 2023 as set out in Appendix 1;

(b) Agree the recommended employer rates for SBHA of 0.00% for the 2024/25 to 2026/27 financial years;

(c) Agree the recommended employer rates for CGI of 21.30% for the 2024/25 to 2026/27 financial years;

(d) Agree the recommended employer rates for SOSE of 19.40% for the 2024/25 to 2026/27 financial years.

3 BACKGROUND

3.1 It is a requirement of the Local Government Pension Scheme (Scotland) Regulations 2018 that an administering authority must obtain –

a) an actuarial valuation of the assets and liabilities of each of its pension funds both on an ongoing and a cessation basis as at 31st March 2020 and on 31st March in every third year afterwards;
b) a report by an actuary in respect of the valuation; and
c) a rates and adjustments certificate prepared by an actuary.

3.2 When undertaking the valuation the Fund Actuary must have regard to –

a) the existing and prospective liabilities arising from circumstances common to all those bodies;
b) the desirability of maintaining as nearly constant a primary rate as possible;
c) the current version of the administering authorities funding strategy; and
d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as related to the pension fund.

3.3 The valuation is based on the membership data, benefits accrued and estimates of futures benefits as well as the value of assets held and the future performance of these assets. Key assumptions are agreed with the Actuary around future pay increases, inflation and future performance of assets. The previous valuation as at 31 March 2020 showed a funding position of 110%.

3.4 The valuation also set the contribution rate for employers for the next three years. The valuation undertaken as at 31 March 2020 and resulted in the following contribution rates being set: -

Employer	**2021/22**	**2022/23**	**2023/24**
Scottish Borders Council Pool	18.00%	18.00%	18.50%
Scottish Borders Housing Association	20.30%	20.80%	21.30%
CGI	22.00% plus £16,500	22.00% plus £16,500	22.00% plus £21,000
South of Scotland Enterprise	21.10%	21.10%	21.60%

4 TRIENNIAL VALUATION AS AT 31 MARCH 2023

4.1 The valuation shows that the funding level of the Fund as at 31 March 2023 is 134% which compares with 110% at the previous 31 March 2020 valuation date and 114% at the March 2017 valuation. The detailed Valuation Report is contained in Appendix 1.

4.2 Fund operates a Contribution Stability Mechanism (CSM) for its long-term secure employers. The CSM is designed to keep contributions stable through the peaks and troughs of market cycles. Any annual changes to contribution rates are therefore 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") and is an explicit mechanism documented in the Funding Strategy Statement. At each revaluation, the Fund must check that the funding plan remains appropriate and use that plan to set contribution rates for the Pool.

4.3 The key assumptions adopted in the valuation, by the Actuary are set out in the table below.

Financial Assumption	31 March 2023	31 March 2020
Investment Return	5.20%	3.80%
Pay Increases	3.00%	2.60%
Benefits Increase	2.30%	1.90%

Whole fund average life expectancies from age 65

Longevity	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.

4.4 The following table summarises the position of the overall valuation result for the Fund.

Valuation	31 March 2023 £m	31 March 2020 £m
Value of Scheme Liabilities		(650.0)
Smoothed Asset Value		713.0
Surplus/(Deficit)		**63.0**
Funding Level		**110%**

4.5 On commencing the revaluation process for 2023, an assessment was made on asset and liability movements since 2020. The Fund has experienced significant asset returns in the first half of the inter-valuation period, due to the bounce-back from Covid-19 market fall in February/March 2020. This positive picture has been compounded by a material fall in liability values in the second half of the inter-valuation period due to rising interest rates.

4.6 When assessing the impact of changes from 2020 to 2023, in net terms, the key change has been the change in assumed future investment returns as a result of the change in market conditions over the period.

4.7 The following table details the employer contribution rates for each employer to be applied from 1 April 2024. All employers have been notified of these rates.

Employer	2024/25	2025/26	2026/27

Scottish Borders Council Pool	17.00%	17.00%	17.00%
Scottish Borders Housing Association	0.00%	0.00%	0.00%
CGI	21.30%	21.30%	21.30%
South of Scotland Enterprise	19.40%	19.40%	19.40%

Note, the Scottish Borders Council Pool was agreed at meeting of the Pension Fund Committee and Board on 17 January 2024.

4.8 The funding position of Scottish Borders Housing Association (SBHA) has seen a significant change since the last valuation, with Total liabilities reducing from £47.491m to £29.718m and Asset share increasing from £33.991m to £40.785m. This has resulted in the funding level increasing from 72% to 137%. As a result of this significantly improved funding position the employer contribution rate has been set at 0.00% for the next three years, however, the position will be kept under review annually.

4.9 The funding position of CGI has improved from 97% to 120% since the last valuation, this has resulted in the contribution rate reducing from 22.00% to 21.30% for the next three years along with the removal of the annual additional contribution of £21,000. As with other employers the position will be kept under review annually.

4.10 At the last valuation South of Scotland Enterprise (SOSE) were a new employer within the Fund with only 9 active members. Since then the membership of the Fund has grown to 150, with 140 of those active members as at 31 March 2023. In accordance with their admission to the Fund SOSE are considered a separate employer when it comes to the re-evaluation. The funding position for SOSE has increased from 57% to 137% over the past three years and this results in the contribution rate moving from 21.60% to 19.40% for the next three years. As with other employers the position will be kept under review annually.

5 IMPLICATIONS

5.1 **Financial**
There are no direct financial implications of this report. Any substantive changes arising from future actuarial valuations and revisions to funding objectives and/or strategies could potentially have an impact on employers contribution rates.

5.2 **Risk and Mitigations**
This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks regarding the admission of any new employer organisation have been identified and form part of the considerations for admission to the Fund.

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 2018.

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

6.2 As part of the development of the FSS and separation into two discrete policies all active employers of the Fund have been consulted on the draft FSS and policies and comments have been considered in the finalisation of the FSS.

Approved by

Name Suzy Douglas Director Finance and Procurement

Author(s)

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

Background Papers: Triennial Valuation as at 31 March 2020
Pension Fund Employers (Scottish Borders Council) Contribution Rate

Previous Minute Reference: Pension Fund Committee and Board 4 March 2021
Pension Fund Committee and Board 17 January 2024

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

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HYMANS ROBERTSON

Scottish Borders Council Pension Fund

Report on the actuarial valuation as at 31 March 2023

February 2024

Julie West FFA to be completed for final version

For and on behalf of Hymans Robertson LLP

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Contents

1) Executive summary

We have been commissioned by Scottish Borders Council ("the Administering Authority") to carry out a valuation of the Scottish Borders Council Pension Fund ("the Fund") as at 31 March 2023. This fulfils Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018. This report is a summary of the valuation.

1. Contribution rates

The contribution rates for individual employers set at this valuation can be found in the Rates and Adjustments certificate. Table 1 shows the combined individual employer rates set at this valuation and the last valuation.

	31 March 2023		31 March 2020	
Primary rate	21.9% of pay		22.1% of pay	
Secondary rate	2024/25	-£5,258,000	2021/22	-£3,397,000
	2025/26	-£5,417,000	2022/23	-£3,475,000
	2026/27	-£5,580,000	2023/24	-£3,120,000

Table 1: Whole fund contribution rates compared with the previous valuation

The overall contribution rate, expressed as a percentage of pay, has reduced due to both an improvement in the past service funding position and higher assumed future investment returns at 2023 compared to 2020.

2. Funding position

At 31 March 2023, the past service funding position has improved from the last valuation at 31 March 2020. Table 2 shows the single reported funding position at this valuation and the last valuation.

	31 March 2023	31 March 2020
	(£m)	(£m)
Employees	238	259
Deferred Pensioners	91	94
Pensioners	320	296
Total liabilities	**649**	**650**
Assets	**866**	**713**
Surplus (Deficit)	218	63
Fund level	**134%**	**110%**

Table 2: Single reported funding position compared with the previous valuation

The required investment return to be 100% funded is c.3.2% p.a. (3.2% p.a. at 2020). The likelihood of the Fund's investment strategy achieving the required return is 95% (76% at 2020).

1 Approach to the valuation

1.1 Valuation purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

This report marks the culmination of the valuation process and contains its two key outcomes:

1. Employer contribution rates for the period 1 April 2024 to 31 March 2027
2. The funding level of the whole Fund at 31 March 2023.

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Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Statement of Investment Principles and published papers of the Fund's Pensions Committee. Additional material is also contained in Hymans Robertson's LGPS 2023 valuation toolkit.

1.2 Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex, as benefits earned today may only start being paid in 50 years' time. Over that period, there is significant uncertainty over factors which affect the cost of benefits e.g. inflation and investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund.

1.2.1 Key funding decisions

Decision 1: What is the funding target for each employer?
Consider: Will the employer remain in the Fund for the long-term or exit at some point?

Decision 2: What is the funding time horizon?
Consider: How long will the employer participate in the Fund?

Decision 3: What is the required likelihood of success?
Consider: How much prudence can the employer's covenant support in its funding plan?

1.2.2 Modelling approach

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. These are generated using Hymans Robertson's Economic Scenario Service (ESS). Further information on this can be found in Appendix 2.

A contribution rate is set for each employer which has (at least) the required likelihood of meeting the funding target over the relevant funding time horizon. The 5,000 projections of the employer's assets and benefits from the asset-liability model are used to quantify the likelihood that a given contribution rate will meet this target.

1.3 Measuring the funding level

The past service funding level is measured at the valuation date. While it is limited in providing insight into a funding plan, it is a useful high-level summary statistic. A market-related approach is taken to calculate both the assets and the liabilities to ensure they are consistent with one another:

1. The market value of the Fund's assets at the valuation date has been used.
2. The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in Appendix 2).

1.3.1 Calculating the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation (Appendix 1), the assumptions (Appendix 2), and our understanding of the LGPS benefit structure as at 31 March 2023 (details at www.scotlgpsregs.org).

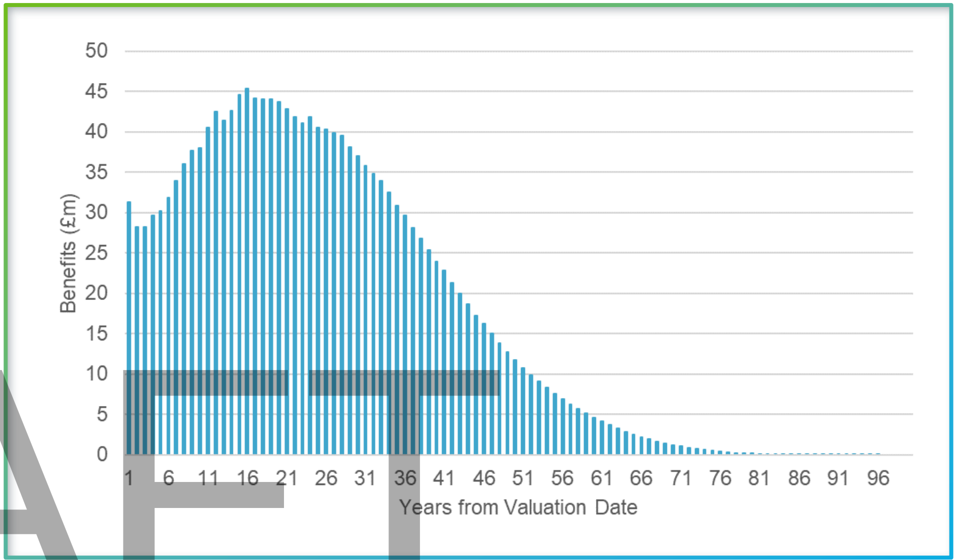

Chart 1: Projected benefit payments for all service earned up to 31 March 2023

To express the future payments in today's money, each projected payment is discounted back to the valuation date in line with an assumed rate of future investment return (known as the 'discount rate').

2 Valuation results

2.1 Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will enable it to pay members' benefits. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both those objectives.

The employer contribution rate is made up of two components.

1. **A primary rate:** the level sufficient to cover benefits that will be accrued in the future.
2. **A secondary rate:** the costs associated with sufficiently funding benefits accrued up to the valuation date.

Each employer has a contribution rate which is appropriate to their circumstances, and these can be found in the Rates & Adjustments Certificate (Appendix 5).

Broadly, contribution rates have reduced at this valuation due to both an improvement in the past service funding position and higher assumed future investment returns at 2023 compared to 2020.

However, all employers will be different, and the contribution rate will reflect the membership and experience of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2024 to 31 March 2027.

	31 March 2023		31 March 2020	
Primary rate	21.9% of pay		22.1% of pay	
Secondary rate	2024/25	-£5,258,000	2021/22	-£3,397,000
	2025/26	-£5,417,000	2022/23	-£3,475,000
	2026/27	-£5,580,000	2023/24	-£3,120,000

Table 3: Whole Fund contribution rates compared with the previous valuation

The primary rate includes an allowance of 0.8% of pensionable pay for the Fund's expenses (0.8% of pay at the last valuation).

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2023 is 6.0% of pay (6.0% at 31 March 2020).

2.2 Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date is known. The value (in ‘today’s money’) of the future benefit payments is uncertain given that the level of future investment returns is unknown.

To help understand funding risk, the liabilities and therefore the funding level has been calculated across a range of different assumptions for future investment returns (also known as ‘discount rates’). The likelihood of the Fund’s investment strategy (detailed in Appendix 1) achieving those levels of return has also been calculated.

Chart 2 shows how the funding level varies with different future investment return assumptions at 31 March 2023 (blue line). The green line shows the same analysis at 31 March 2020.

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- The funding position at 2023 is stronger than it was in 2020.
- The funding level at 2023 will be 100% if future returns are around 3.2% 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% pa which had a likelihood of 76%.
- There is a 50% likelihood of an investment return of 7.2% pa, so the “best estimate” funding level is 178% at 31 March 2023 (139% at 2020).

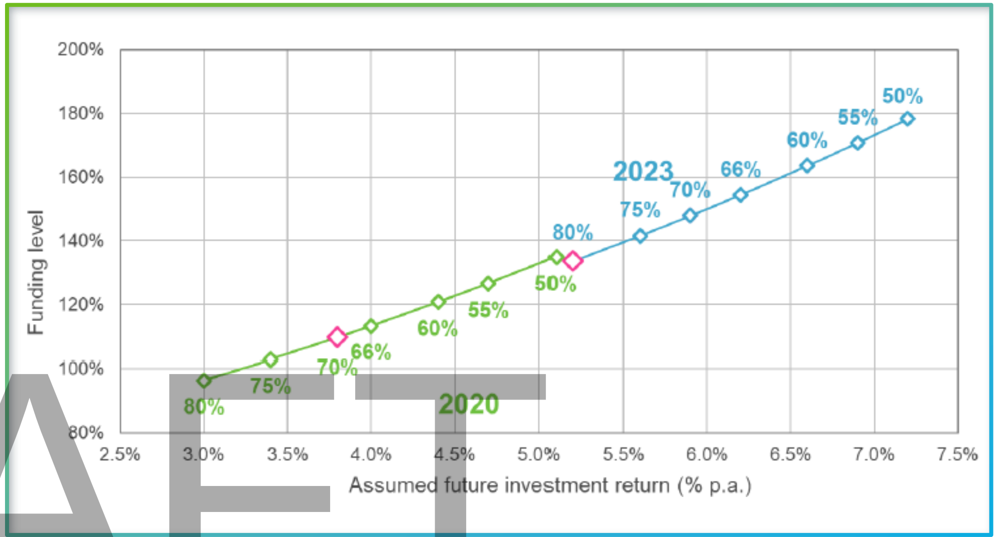

Chart 2: Funding level across a range of future investment returns.

Figures on each line show the likelihood of the Fund’s assets exceeding the level of return over the next 20 years.

2.3 Single funding level as at 31 March 2023

Whilst Chart 2 provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2023.

To report a single funding level and funding surplus/deficit for the 2023 valuation, an assumed future investment return of 5.2% pa has been used. There is an 80% likelihood associated with this level of future investment return.

Table 4 sets out the assets and liabilities at the valuation date. The results at the 2020 valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position as at 31 March 2023, but there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change daily.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation occur in practice, employers pay contributions in line with the R&A certificate, and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2026) will stay largely the same at 134%.

	31 March 2023	31 March 2020
	(£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%**

Table 4: Single reported funding position compared with the previous valuation

The reported funding level does not directly drive the contribution rates for employers. The contribution rates take into consideration how assets and liabilities will evolve over time in different economic scenarios. They also reflect each employer's funding profile and covenant.

2.4 Changes since the last valuation

2.4.1 Events between 2020 and 2023

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. However, the analysis below shows that mortality experience was broadly as expected over the period with minimal impact on the funding position.

A significant factor which has affected the funding position is better than expected investment returns. This has had a material positive impact on the funding position.

Financial

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3-year period	11.8%	21.9%	10.0%	+£77m
Annual	3.8% pa	6.8% pa	3.0% pa	

Table 5: Analysis of investment return experience between 2020 and 2023 valuations

Membership

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	9,662	7,098	-2,564	+£1m
Ill-health retirements	67	49	-13	+£5m
Salary increases	3.2% pa	5.9% pa	2.7% pa	-£14m
Post-retirement				
Benefit increases	1.9% pa	4.5% pa	2.6% pa	-£49m
Pension ceasing	£1.8m	£1.8m	£0m	£0m

Table 6: Analysis of membership experience between 2020 and 2023 valuations

2.4.2 Outlook for the future

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

Future inflation: this is expected to be higher, on average, than at 2020. This is influenced by the current higher level of inflation and longer-term market expectations.

Investment returns: due to changes in financial markets, future investment returns are now expected to be higher than at the last valuation.

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Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which you discount back future benefits payments (also known as the discount rate assumption)	Future investment returns are anticipated to be higher than at 2020.	Decrease of £158m
Inflation	The rate at which pensions (both in payment and deferment) and CARE pots increase.	Significant increase in short-term future inflation expectations.	Increase of £53m
Salary increases	The rate at which future salaries will increase. This affects benefits that are still linked to final salary, i.e. accrued before 1 April 2015.	No material change since last valuation given competing factors, eg tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	No change
Current life expectancy	How long we expect most people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy (not allowing for Covid-related excess deaths)	Decrease of £2m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Updated model of future improvements to the most recent model available, including allowance for some recent mortality experience related to the excess deaths from the Covid 19 pandemic.	Decrease of £15m

Table 7: Summary of change in outlook

2.5 Reconciling the overall change in funding position

Tables 8 & 9 provide insight into the funding position change between 31 March 2020 and 31 March 2023. Firstly, the changes expected to happen (Table 8), which relate mostly to assets. Then the impact of actual experience (Table 9), which affects mainly the liabilities.

2.5.1 Expected development

	Surplus/deficit
	£m
31 March 2020 valuation	**63**
Cash flows	
Employer contributions paid in	51
Employee contributions paid in	17
Benefits paid out	-
Net transfers into/out of the Fund	*
Other cash flows (e.g. expenses)	(2)
Expected changes	
Expected investment returns	91
Interest on benefits already accrued	(77)
Accrual of new benefits	(81)
Expected position at 31 March 2023	**(62)**

Table 8: Expected development of funding position between 2020 and 2023 valuations.

* We have insufficient data to accurately value the impact on the liabilities from transfers in/out. The cashflows have been combined with "Other cash flows"

2.5.2 Impact of actual events

	Surplus/deficit
	£m
Expected position at 31 March 2023	**62**
Events between 2020 and 2023	
Salary increases greater than expected	(14)
Benefit increases greater than expected	(49)
Early retirement strain (and contributions)	0
Ill health retirement strain	5
Early leavers more than expected	1
Pensioner mortality less than expected	0
Other membership experience	8
Higher than expected investment returns	77
Changes in future expectations	
Investment returns	158
Inflation	(53)
Salary increases	0
Longevity	17
Other demographic assumptions	8
Actual position at 31 March 2023	**218**

Table 9: Impact of actual events on the funding position at 31 March 2023

Numbers may not sum due to rounding.

3 Sensitivity and risk analysis

Funding benefits that are going to be paid in the future involves risk and uncertainty. The Fund therefore maintains a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk (assumptions, regulatory, administration and governance, and climate change). Further information about the Fund's approach to funding risk management, including monitoring, mitigation, and management, is set out in the Funding Strategy Statement.

The valuation results depend on the actual assumptions made about the future. By their nature, these assumptions are uncertain which means it's important to understand their sensitivity and risk levels.

3.1 Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions, but they are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

3.2 Funding level

3.2.1 Financial assumptions

In Section 3.2 we have already set out how the results vary with the assumed future investment return. Here we consider inflation.

CPI assumption	Surplus/Deficit	Funding level
	£m	%
2.1% pa	234	137%
2.3% pa	218	134%
2.5% pa	201	130%

Table 10: Sensitivity of funding position to inflation assumption

3.2.2 Demographic assumptions

The main area of demographic risk is if people live longer than expected. Table 11 shows the impact of longer-term longevity rates improving at a faster pace (1.75% pa vs 1.5% pa used in the headline results).

Long-term rate of improvement	Surplus/Deficit	Funding level
	£m	%
1.50% pa	218	134%
1.75% pa	214	133%

Table 11: Sensitivity of the funding to longevity assumption

3.3 Other risks

3.3.1 Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation, which alters the future cost of the LGPS, and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

McCloud

Benefits accrued by certain members between 2015 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2015 for older members were discriminatory. We've made an allowance for the cost of these potential improvements, based on the guidance issued by the Scottish Public Pensions Agency on 28 April 2023. Details are set out in guide 12 of Hymans Robertson's LGPS 2023 valuation toolkit.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. We have assumed that there will be no changes required to the benefit structure due to the cost cap.

Goodwin

As the remedy to this issue is still uncertain, it is difficult to identify who it would apply to. Given its impact is estimated to be very small for an LGPS fund, we have made no allowance for this change at the 2023 valuation.

GMP Indexation

It is assumed that all increases on GMPs for members reaching State Pension age after 6 April 2016 will be paid for by LGPS employers in the Fund. This is the same approach that was taken for the 2020 valuation.

3.3.2 Post valuation events

Since 31 March 2023, there has been continued volatility in financial markets and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities.

- The Fund's investment return since 31 March 2023 is estimated to be around 1 - 2%.
- Liability valuations are likely to be lower now than at 31 March 2023 due to rises in expected future investment returns and a reduction in long-term inflation expectations.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

3.4 Climate change

3.4.1 Background

Climate change is a major source of uncertainty which could affect future investment returns, inflation, and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

More information about the scenarios detailed below can be found in guide 10 of Hymans Robertson's LGPS 2023 valuation toolkit.

3.4.2 Outcome of analysis

The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics.

- **Likelihood of success** – the chance of being fully funded in 20 years' time.
- **Downside risk** – the average worst 5% of funding levels in 20 years' time.

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the 'core' model used when setting the funding and investment strategy). The stress-test results for the Fund are shown in Table 12. All results are in absolute terms.

Scenario	Likelihood of success	Downside risk
In comparison to 'core' modelling results		
Green revolution	1% higher	2% lower
Delayed transition	No change	1% higher
Head in the sand	1% lower	4% higher

Table12: Modelling results with additional climate risk testing

The 'likelihood of success' is worse in the head in the same climate scenario. This is to be expected given that they are purposefully stress tests. The 'downside risk' measure is better in the 'green revolution' scenario and worse in the 'delayed transition' and 'head in the sand' scenarios which highlights the importance of monitoring this risk and how it may evolve.

The climate risk results are not materially different to the 'core' modelling results, and not enough to suggest that the funding strategy is unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

4 Final comments

The Fund's valuation operates within a broader framework, and this document should be considered alongside the following:

- The Funding Strategy Statement, which in particular highlights how different employers in different circumstances have their contributions calculated.
- The Statement of Investment Principles, which sets out the investment strategy for the Fund.
- The general governance of the Fund, including meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc.

4.1 New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

4.2 Cessation and bulk transfers

Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 61 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund.
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement.

should be referred to the Fund Actuary to consider the impact on the Fund.

4.3 Valuation frequency

Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2026 where contribution rates payable from 1 April 2027 will be set.

Add signature to final version for publishing

Julie West FFA Second name to be added to final version

February 2024

For and on behalf of Hymans Robertson LLP

Appendices

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Appendix 1: Data

Membership data

A summary of the membership data provided by the Fund for the 2023 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

More information on how we verify the quality of the data used in the valuation has been shared with the Administering Authority in our report ' Data Report for the 2023 Valuation, dated 18 December 2023.

Asset data

To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cash flow data provided by the Fund.

Whole Fund membership data	31 March 2023	31 March 2020
Employee members		
Number	4,811	4,526
Total actual pay (£000)	98,450	80,635
Total accrued pension (£000)	19,344	16,194
Average age (liability weighted)	54.3	53.0
Future working lifetime (years)	7.9	8.7
Deferred pensioners (including undecideds)		
Number	3,334	2,975
Total accrued pension (£000)	7,098	5,606
Average age (liability weighted)	53.4	52.1
Pensioners and dependants		
Number	4,506	3,845
Total pensions in payment (£000)	24,239	19,392
Average age (liability weighted)	69.2	68.4

Table 13: Whole Fund membership data at this valuation compared with the previous valuation

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future investment return is set out in Table 14.

Asset class	Allocation
UK equities	10%
Overseas equities	30%
Infrastructure equity	5%
Total growth assets	**45%**
Index-linked gilts	5%
Absolute return bonds	10%
Total protection assets	**15%**
Multi-asset credit	7.5%
Infrastructure debt	7.5%
Private lending	10%
Property	15%
Total income generating assets	**40%**
Total	**100%**

Table 14: Investment strategy allocation used for the calculation of employer contribution rates.

Appendix 2: Assumptions

To set and agree assumptions for the valuation, the Fund carried out an in-depth analysis and review in October 2023 with the final set noted by the Pensions Committee on 12 December 2023.

Financial assumptions

Setting employer contribution rates

An asset-liability model was used to set employer contributions at the 2023 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long-term inflation. The table below shows the calibration of the ESS at 31 March 2023. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Time period	Percentile	Asset class annualised total returns							Inflation/Yields		
		Cash	All World ex UK Equity	UK Equity	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	Property	Corporate Debt	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	2.5%	1.1%	1.3%	0.8%	2.4%	1.2%	2.7%	0.9%	-0.3%	2.7%
	50th	3.6%	7.3%	7.5%	2.8%	3.7%	6.2%	4.3%	2.5%	0.9%	4.1%
	84th	4.7%	13.6%	13.5%	5.1%	4.9%	11.5%	5.8%	4.1%	2.2%	5.9%
20 years	16th	2.3%	2.8%	3.0%	1.0%	3.3%	2.7%	3.7%	0.7%	-0.5%	1.4%
	50th	3.7%	7.4%	7.5%	2.7%	4.1%	6.4%	4.7%	2.3%	1.3%	3.4%
	84th	5.4%	12.2%	12.0%	4.5%	4.8%	10.3%	5.8%	3.9%	2.9%	5.9%
40 years	16th	1.8%	3.7%	3.9%	1.0%	2.9%	3.2%	3.4%	0.6%	-0.6%	1.2%
	50th	3.5%	7.2%	7.4%	2.7%	3.7%	6.2%	4.4%	2.0%	1.3%	3.3%
	84th	5.7%	10.9%	10.9%	4.6%	4.9%	9.5%	5.8%	3.5%	3.2%	6.1%
	Volatility (5yr)	2%	18%	18%	7%	5%	15%	6%	3%	-	-

Table 15: ESS individual asset class return distributions at 31 March 2023

Calculating the funding level

Table 16 summarises the assumptions used to calculate the funding level at 31 March 2023, along with a comparison at the last valuation.

Assumption	31 March 2023	Required for	31 March 2020
Discount rate	5.2% pa	To place a 'today's money' 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 achieving a return that is at least equal the discount rate.	3.8% pa (based on 70% likelihood)
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*

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation

*plus a promotional salary scale

Demographic assumptions

The same demographic assumptions are used to set contribution rates and assess the current funding level.

Longevity

	31 March 2023	31 March 2020
Baseline assumptions	VitaCurves based on member-level lifestyle factors	VitaCurves based on member-level lifestyle factors
Future improvements	**CMI 2022 model** Initial addition = **0.25% (both Male and Female)** Smoothing factor = **7.0** Weighting = **0%** (2020 & 2021 data), **25%** (2022 data) **1.5% pa** long-term rate	**CMI 2019 model** Initial addition = **0.5% (both Male and Female)** Smoothing factor = **7.0** **1.5% pa** long-term rate of improvement

Table 17: Summary of longevity assumptions at this valuation compared with the previous valuation

Other demographic assumptions

Death in service	See sample rates in Table 19
Retirements in ill health	See sample rates in Table 19
Withdrawals	See sample rates in Table 19
Promotional salary increases	See sample rates in Table 19
Commutation	65% of future retirements elect to exchange pension for additional tax-free cash up to HMRC limits
50:50 option	0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Proportion married	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 85% for males and 60% for females. The dependant of a male member is assumed to be 2 years younger than him and the dependant of a female member is assumed to be 3.5 years older than her.

Table 18: Summary of other demographic assumptions

Sample rates for demographic assumptions

Males

Age	Salary scale	Death before retirement	Withdrawals		Ill health Tier 1		Ill health Tier 1	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	267.99	578.87	0	0	0	0
25	117	0.21	177.02	382.37	0.11	0.02	0.13	0.02
30	131	0.26	125.57	271.22	0.21	0.03	0.23	0.03
35	144	0.30	98.09	211.87	0.41	0.14	0.46	0.15
40	154	0.51	78.93	170.49	0.62	0.26	0.69	0.24
45	164	0.86	64.58	139.50	0.99	0.51	1.09	0.49
50	174	1.37	50.03	108.06	1.86	1.31	2.59	1.45
55	179	2.15	48.05	103.80	5.83	4.52	4.67	3.11
60	184	3.86	42.80	92.45	9.91	6.97	3.87	2.65
65	185	6.44	0	0	18.92	13.49	0	0

Females

Age	Salary scale	Death before retirement	Withdrawals		Ill health Tier 1		Ill health Tier 1	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.11	256.99	372.67	0	0	0	0
25	117	0.11	172.88	250.69	0.16	0.13	0.09	0.10
30	131	0.16	144.88	210.09	0.21	0.18	0.12	0.13
35	144	0.27	124.95	181.2	0.41	0.34	0.24	0.25
40	154	0.44	103.93	150.70	0.61	0.51	0.36	0.37
45	164	0.71	85.55	124.06	0.82	0.68	0.48	0.50
50	174	1.04	65.19	94.53	1.5	1.23	1.11	1.13
55	179	1.37	60.98	88.43	5.47	4.43	2.32	2.35
60	184	1.75	49.03	71.10	11.52	9.3	2.38	2.40
65	185	2.25	0	0	20.73	16.76	0	0

Table 19: Sample rates of male and female demographic assumptions.

Figures are incidence rates per 1,000 members except salary scale.
FT and PT denoted full-time and part-time members respectively.

Appendix 3: Reliances & limitations

We have been commissioned by the Scottish Borders Council ('the Administering Authority') to carry out a full actuarial valuation of the Scottish Borders Council Pension Fund ('the Fund') at 31 March 2023, as required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 ('the Regulations').

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2023 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

This summary report is the culmination of other communications in relation to the valuation, in particular:

- our 2023 valuation toolkit which sets out the methodology used when reviewing funding plans
- our paper dated 31 October 2023 which discusses the funding strategy for the Fund's stabilised employers
- our paper dated 03 October 2023 which discusses the valuation assumptions.
- our initial results report dated 03 October 2023 which outlines the whole Fund results and inter-valuation experience
- our data report dated 18 December 2023 which summarises the data used for the valuation, the approach to ensuring it is fit for purpose and any adjustments made to it during the course of the valuation
- the Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members.

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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Appendix 4: Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Asset-liability modelling	An approach to modelling and understanding risk for a pension fund. The assets and liabilities are projected forwards into the future under many different future scenarios of inflation, investment returns and interest rates. The future scenarios are then analysed to understand the risk associated with a particular combination of contribution rates and investment strategy. Different combinations of contribution rates and/or investment strategies may be tested.
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts who Hymans Roberston partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insights on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Deferred pensioner	A former employee who has left employment (or opted out of the pension fund) but is not yet in receipt of their benefits from the fund.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.

Term	Explanation
Discount rate	An assumption for the annual rate of future investment return. Used to place a single 'today's money' value on a stream of future payments.
Employee members	Members who are currently employed by employers who participate in the Fund and are paying contributions into the Fund.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.
Funding position	The extent to which the assets held by the Fund at 31 March 2023 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically, we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Pensioner	A former employee who is in receipt of their benefits from the fund. This category includes eligible dependants of the former employee.
Primary rate	The estimated cost of future benefits, expressed in percentage of pay terms. The primary rate will include an allowance to cover the Fund's expenses.

Term	Explanation
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence level of more than 50%. All other assumptions aim to be best estimate.
Prudence level	A percentage indicating the likelihood that the assumed rate of investment return will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the assumed rate of investment return.
Secondary rate	An adjustment to the primary rate, generally to reflect costs associated with benefits that have already been earned up to the valuation date. This may be expressed as a percentage of pay and/or monetary amount.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire but are no longer earning new benefits.

Appendix 5: Rates and Adjustments Certificate

In accordance with Regulation 60(4) of the Regulations, we have assessed the contributions that should be paid into the Fund by participating employers for the period 1 April 2024 to 31 March 2027 to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in this Rates and Adjustments Certificate are detailed in the Funding Strategy Statement dated March 2024 and in Appendix 2 of the report on the actuarial valuation dated 31 March 2024. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole Fund primary and secondary contribution rates for the period 1 April 2024 to 31 March 2027. The primary rate is the payroll weighted average of the underlying individual employer primary rates and the secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the LGPS regulations and CIPFA guidance. The secondary rate has been shown both as a monetary amount and an equivalent percentage of the projected pensionable pay.

Julie West FFA to be included in the final version
February 2024
For and on behalf of Hymans Robertson LLP

This valuation (31 March 2023)		
Primary rate	21.9% of pay	
Secondary rate	**Monetary amount**	**Equivalent to % of payroll**
2024/25	-£5,258,000	-5.0%
2025/26	-£5,417,000	-5.0%
2026/27	-£5,580,000	-5.0%

Table 20: Whole fund primary and secondary contribution rates from 1 April 2024 to 31 March 2027

The required minimum contribution rates for each employer in the Fund are set out in the remainder of this certificate.

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay and monetary amount)			Total contributions (Primary rate plus secondary rate)			Notes
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	
	Scheduled								
	Scottish Borders Council	21.8%	-4.8%	-4.8%	-4.8%	17.0%	17.0%	17.0%	
	Scottish Borders Council Funding Pool								
13	Borders College	21.8%	-4.8%	-4.8%	-4.8%	17.0%	17.0%	17.0%	
16	Scottish Borders Council	21.8%	-4.8%	-4.8%	-4.8%	17.0%	17.0%	17.0%	
24	AMEY	21.8%	-4.8%	-4.8%	-4.8%	17.0%	17.0%	17.0%	
21	Jedburgh Leisure Facilities Trust	21.8%	-4.8%	-4.8%	-4.8%	17.0%	17.0%	17.0%	
22	LIVE Borders	21.8%	-4.8%	-4.8%	-4.8%	17.0%	17.0%	17.0%	
	Individual Employers								
	Scottish Borders Housing Association	28.6%	-28.6%	-28.6%	-28.6%	0.0%	0.0%	0.0%	
27	CGI	25.6%	-4.3%	-4.3%	-4.3%	21.3%	21.3%	21.3%	
28	South of Scotland Enterprise	21.2%	-1.8%	-1.8%	-1.8%	19.4%	19.4%	19.4%	

Notes to the Rates & Adjustments Certificate

- Contributions expressed as a percentage of payroll should be paid into the Fund at a frequency in accordance with the requirements of the Regulations.
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.
- Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions. If an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the Administering Authority, then their certified contribution rate may be reduced by the value of their insurance premium, for the period the insurance is in place.
- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.

Appendix 6: Section 13 dashboard (draft)

Metric	Unit	2023 Valuation
2023 funding position – local funding basis		
Funding level (assets/liabilities)	%	134%
Funding level (change since previous valuation)	%	24% increase
Asset value used at the valuation	£m	866
Value of liabilities (including McCloud liability)	£m	649
Surplus (deficit)	£m	218
Discount rate (past service)	% pa	5.2%
Discount rate (future service)	% pa	Past service and future service are consistently valued with the same underlying assumptions, methodologies, and models regarding future expected levels of inflation, interest rates and investment returns.
Assumed pension increase (CPI)	% pa	2.3%
Method of derivation of discount rate, plus any changes since previous valuation		There is an 80% likelihood that the Fund's assets will return at least 5.2% over the 20 years following the 2023 valuation date. The same methodology was used for the 2020 valuation with a 70% likelihood

Metric	Unit	2023 Valuation
Assumed life expectancy at age 65		
Life expectancy for current pensioners – men age 65	Years	20.6
Life expectancy for current pensioners – women age 65	Years	23.3
Life expectancy for future pensioners – men age 45	Years	21.2
Life expectancy for future pensioners – women age 45	Years	24.9
Past service funding position – SAB basis (for comparison purposes only)		
Market value of assets	£m	866
Value of liabilities	£m	737
Funding level on SAB basis (assets/liabilities)	%	117%
Funding level on SAB basis (change since last valuation)	%	2% decrease

Metric	Unit	2023 Valuation	2020 Valuation
Contribution rates payable			
Primary contribution rate	% of pay	21.9%	22.1%
Secondary contribution rate (cash amounts in each year in line with CIPFA guidance)			
1st year of rates and adjustments certificate	£m	-5.258	-3.397
2nd year of rates and adjustments certificate	£m	-5.417	-3.475
3rd year of rates and adjustments certificate	£m	-5.580	-3.120
Giving total expected contributions			
1st year (£ figure based on assumed payroll)	£m	17.642	15.370
2nd year (£ figure based on assumed payroll)	£m	18.174	15.783
3rd year (£ figure based on assumed payroll)	£m	18.722	16.643
Assumed payroll (cash amounts in each year)			
1st year rates and adjustments certificate	£m	104.478	84.915
2nd year rates and adjustments certificate	£m	107.629	87.140
3rd year rates and adjustments certificate	£m	110.876	89.423
Three-year average	% of pay	16.9%	18.3%
Average employee contribution	% of pay	6.0%	6.0%
Employee contribution rate (£ figure based on assumed payroll of £104.478m)	£m pa	6.3	5.1

Metric	Unit	2023 Valuation	2020 Valuation
Deficit recovery and surplus spending plan			
Latest deficit recovery period end date, where this methodology is used by the fund's actuarial advisor.	Year	Methodology not used	Methodology not used
Earliest surplus spreading period end date, where this methodology is used by the fund's actuarial advisor.	Year	Methodology not used	Methodology not used
The time horizon end date, where this methodology is used by the fund's actuarial advisor	Year	2043	2040
The funding plan's likelihood of success, where this methodology is used by the fund's actuarial advisor.	%	80%	70%
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	%	0%	0%
Additional information			
Percentage of total liabilities that are in respect of Tier 3 employers	%	6%	0%
Included climate change analysis/comments in the 2023 valuation report		Yes	Not applicable
Value of McCloud liability in the 2023 valuation report (on local funding basis)	£m	2.9	Not applicable

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STATEMENT OF INVESTMENT PRINCIPLES 2024

Report by Director of Finance & Procurement

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2024

1 PURPOSE AND SUMMARY

1.1 **This report proposes the revised Statement of Investment Principles (SIP) for 2024. This document should be kept under review and be updated and approved annually in line with the Pension Fund's business plan. This report discharges that requirement.**

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

1.3 Appendix A contains the revised Statement of Investment Principles (SIP) for approval.

2 RECOMMENDATIONS

2.1 **It is recommended that committee:**

(a) Approve the Statement of Investment Principles set out in Appendix A

3 BACKGROUND

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

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

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

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

Myners Principle 3: Risk and Liabilities states that:

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

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

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

3.5 The 2023 Valuation of the Fund reported a 134% funding position in relation to the estimated assets held against future liabilities. This is a strong position for the Fund, and it is important to continue to ensure that this position is maintained in the long term in order to meet the Fund's primary aim:

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

4 STATEMENT OF INVESTMENT PRINCIPLES

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

Para	Amendment
4.8	Updated to reflect that the next strategic asset allocation review is expected to take place in June 2024
4.10	Updated to reflect changes in asset managers
4.18	Updated to reflect that Appendix 4 contains details of the investment arrangements in place as at 31 January 2024

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

5 IMPLICATIONS

5.1 **Financial**

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

5.2 **Risk and Mitigations**

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

5.3 **Integrated Impact Assessment**

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

5.4 **Sustainable Development Goals**

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

5.5 **Climate Change**

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

5.6 **Rural Proofing**

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

5.7 **Data Protection Impact Statement**

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

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

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

6 CONSULTATION

6.1 The Director (Corporate Governance), 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 incorporated into the final report.

Approved by

....

Suzy Douglas
Director of Finance & Procurement **Signature**

Author(s

Name	Designation and Contact Number
Suzy Douglas	Director of Finance & Procurement 01835 824000 ext 5881

Background Papers:
Previous Minute Reference: Joint Pension Fund Committee & Board – 12 December 2023

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SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2024

Finance

Pension Fund Committee - 4 March 2024

Introduction

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

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 4th March 2024.

1. The statutory requirements concerning the SIP

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

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

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

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

2. Governance

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

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

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

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

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

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

- The Statutory Regulations
- The Pension Fund Committee
- The Pension Fund Investment & Performance Sub-Committee
- The Pension Board
- The Fund's Advisers
- The Funding Strategy Statement[2]
- The Governance Policy and Compliance Statement[2].

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

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

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

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

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

Funding Objectives

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

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

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

4. Investment Policy

Investment Strategy

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

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

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

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

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

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

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

4.8 The Committee undertook a full asset allocation review exercise in June 2021, taking into account the funding status and liabilities and using asset liability modelling, following the 2020 triennial valuation. A further refinement was made to the strategic assets allocation in December 2021 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period, with the next review expected in Q2 2024.

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

Investment Management Arrangements

4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Macquarie Investment Management, Partners Group, Blackrock, Permira, Legal & General Investment Management (LGIM), IFM Investors, CBRE Investment Management (CBRE), Nuveen Natural Capital (Nuveen), Quinbrook Infrastructure Partners (Quinbrook) and Baillie Gifford & Co (Baillie

Gifford), as appropriate. The Fund also works in collaboration with Lothian Pension Fund for Infrastructure opportunities, investing with a number of specialist infrastructure Managers.

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

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

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

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

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

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

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

4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 January 2024.

Risk Measurement and Management

4.19 ***Asset Allocation***

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

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

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

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

- As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2021 by the Fund's investment consultant, it is envisaged that this will next be done during 2024 following the actuarial valuation as at 31 March 2023.

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

4.20 *Investment Managers*

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

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

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

- The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance as well as update the Committee on Environmental, Social and Governance (ESG) issues.

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

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

4.21 *Proper Advice*

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

Investment Consultant	Isio
Actuaries	Hymans Robertson

4.22 *Concentration Risk and Diversification*

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

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

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

4.23 ***Transition Management Arrangements***

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

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

4.24 ***Currency Risk***

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

4.25 ***Safe Keeping of Assets***

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

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

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

- Investment in pooled funds gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

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

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

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

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

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

5. Types of Investment

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

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

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

6. Environmental, Social and Corporate Governance Issues

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

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

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

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

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

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

7. Audit responsibilities

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

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

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

8. Compliance with the Myners principles

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

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

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

8.4 The six principles are:

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

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

Appendix 1

Pension Fund Investment and Performance Sub-Committee

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

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

Appendix 2

Pension Board

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

1. The Objectives of the Board are as follows:

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

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

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

   iii such other matters as the regulations may specify .

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

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

Appendix 3

Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range/ Tolerance %
Active - UK Equity	Baillie Gifford	*3.5%*	
Active - Global Equity	Baillie Gifford	*13.5%*	
	Morgan Stanley	*13.0%*	
	Sub Total	**30.0%**	**24% - 36%**
Passive Equity	LGIM	**10%**	**8% - 12%**
Total Equity		**40.0%**	**32% - 48%**
Bonds			
Diversified Credit	M&G	*10.0%*	
Index Linked Gilts	M&G	*6.0%*	
Total Bonds		**16.0%**	**12% - 17%**
Alternatives [2]			
Diversified Alternatives	LGT Partners	4.0%	
Direct Lending	Permira	5.0%	
	Partners Group	5.0%	
Infrastructure Equity	Various underlying (in conjunction with Lothian Pension Fund)		
		5.0%	
	Nuveen		
	Quinbrook		
	IFM	3.0%	
Infrastructure debt (junior)	Macquarie	2.5%	
Infrastructure debt (senior)	Macquarie	5.0%	
Total Alternatives		**29.5%**	**24% - 36%**
Property			
Residential	CBRE	2.5%	

Long Lease Property	Blackrock	12.0%	
Total Property		**14.5%**	**12% - 17%**
Cash		0.0%	
Total		**100.0%**	

Note:

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

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

Appendix 4

Investment Management Arrangements

Asset Class	Manager		Performance Objective (net of fees)	Benchmark Indices Used
Active UK Equity	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index
Active Global Equity	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Total Return Index
	Morgan Stanley	Benchmark Return	Seek Capital Preservation	MSCI World Total Return Index
Passive Equity	LGIM	Benchmark return	To track the benchmark index	Solactive L&G ESG Global Markets Index
Bonds	M&G	Benchmark Return	+2.5% - 3.0%	1 Month SONIA
	M&G	Benchmark Return	+0.75%	FTSE Actuaries UK Index Linked Gilts Over 5 Years Index
Multi-Asset Alternatives Fund	LGT Partners	Benchmark Return	+4.0%	1 Month SONIA
	Permira	Benchmark Return	+4.0%	1 Month SONIA
	Partners Group	Benchmark Return	+4.0%	1 Month SONIA
	Infrastructure	Benchmark Return	+3.5%	RPI
	Nuveen	Absolute Performance Objective	+6.0%	Not Defined
	Quinbrook	Absolute Performance Objective	+10.0%	Not Defined

	Macquarie - Infrastructure debt (junior)	Benchmark Return	+4.0%	1 Month SONIA
	Macquarie Infrastructure debt (senior)	Benchmark Return	+2.0%	1 Month SONIA
	IFM Investors	Absolute Performance Objective	+10.0%	Not Defined
Property				
	Blackrock	Benchmark Return	+2.5%	RPI
	CBRE	Absolute Performance Objective	+6.0%	Not Defined

Appendix 5

SCOTTISH BORDERS COUNCIL PENSION FUND

RESPONSIBLE INVESTMENT POLICY

Approved 16 Sept 2021

Scottish Borders Council Pension Fund
Statement of Responsible Investment

1. Introduction

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

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

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

2. Rationale for the Policy

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

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

3. Impact of the Policy on investment decision making

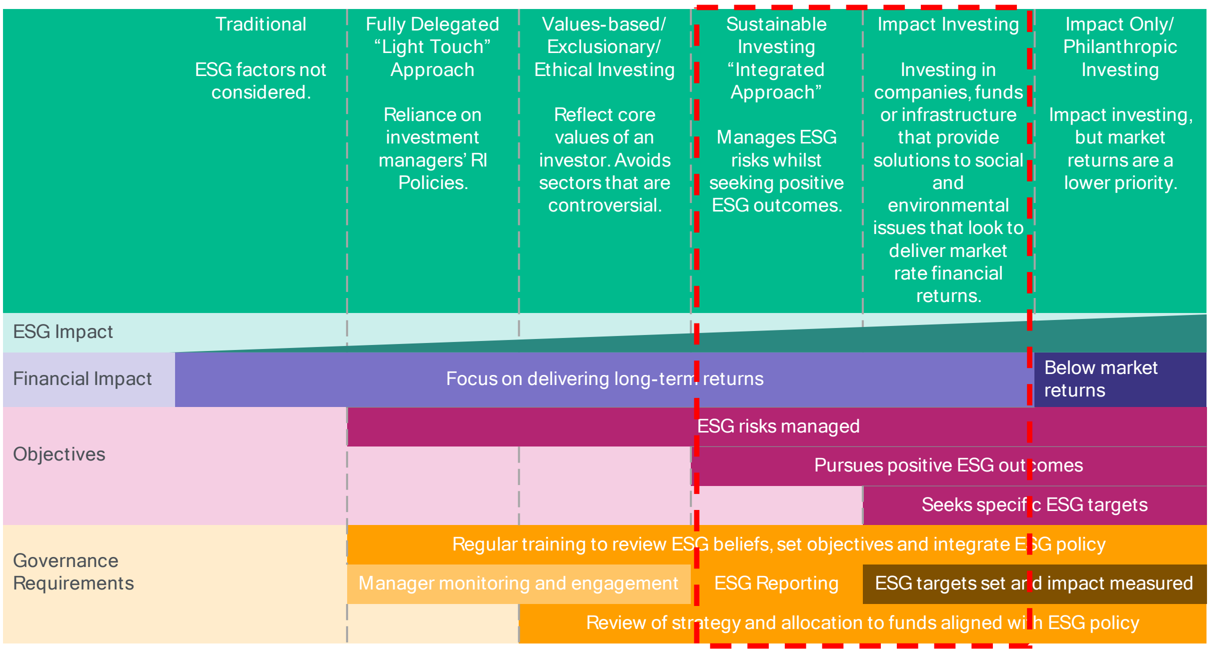
The Committee decides the Fund's investment strategy and asset allocation. This includes which asset classes the Fund should be invested in e.g. equity, credit, property and infrastructure. In making any portfolio construction decisions, the Committee will have regard for this Policy.

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

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

4. ESG approach

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



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

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

5. Overarching Principles

Environmental

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

Social Responsibility

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

Corporate Governance

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

6. The Committee's ESG beliefs

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

Risk Management

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

Approach/Framework

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

Voting & Engagement

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

Reporting & Monitoring

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

Collaboration

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

7. Implementing the Policy

The Committee will implement the policy through the following steps:

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

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

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

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

8. Monitoring and reviewing the Policy

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

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

The PRI is a proponent of responsible investment.

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

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

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

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

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

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

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

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

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

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

Examples of ESG factors include:

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

Appendix 6

Statement of Compliance with Myners Principles

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

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

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

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

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

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

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

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

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

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

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

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

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley,in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley
Draft 2017 1.0	Final draft of SIP to present to Pension Fund Committee on 22 June 2017	June 2017	K Robb
Draft 2019 1.0	Final draft of SIP to present to Pension Fund Committee on 6 June 2019	June 2019	K Robb
Draft 2020	Final draft of SIP to present to Pension Fund Committee on 6 June 2020	June 2020	K Robb
Draft 2022	Final draft of SIP to present to Pension Fund Committee on 17 March 22	March 22	K Robb
Draft 2023	Final draft of SIP presented to Pension Fund Committee on 9 March 2023	March 2023	Isio
Draft 2024	Final draft of SIP presented to Pension Fund Committee on 4 March 2024	March 2024	Isio

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

Contact us at Suzanne Douglas, Director of Finance & Procurement, Council HQ, Newtown St Boswells
01835 824000 X5881, treasuryteam@scotborders.gov.uk

PENSION ADMINISTRATION STAFFING

Report by Director People Performance and Change

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

4 March 2024

1 PURPOSE AND SUMMARY

1.1 **This report presents a review of the staffing within the Pensions Administration Team and requests the Committee's approval to introduce a new permanent position within the team, which will be fully funded by the Pension Fund, and to proceed with the recruitment to the position at the earliest opportunity with a start date no earlier than 1 April 2024**.

1.2 The staffing establishment within the Pensions Administration Team has not been reviewed since 23 May 2011 when the HR Shared Services team was created following a full restructure of the Human Resources, Payroll and Pensions administration functions for Scottish Borders Council.

1.3 In previous external audit recommendations officers were to carry out a review of the staffing arrangements for the Pensions function to ensure that there is adequate resourcing to deal with the current and up coming legislative changes, this was completed for the Finance Team in 2020 and saw an increase in establishment at that time in Finance. The proposal to add this additional position discharges this requirement for the Pensions Administration Team.

1.4 Since the financial year ended 31 March 2012 to the end of the 2022/23 financial year there has been an increase in Active, Deferred and Pensioner members of the Fund by almost 40% with no increase to the staffing establishment with the Pensions Administration team.

1.5 Whilst the Pensions Administration Team have managed to maintain high levels of standard these could be improved and even higher standards of service delivered to scheme members and employers, it is proposed that this is achieved through the introduction of a Pensions Officer within the Pensions Administration team.

1.6 The legislative requirements of the Local Government Pension Scheme have changed over the years and continue to do so, the introduction of Pensions

Officer to the team will allow a clear focus on the delivery of these, with the Pensions Officer either working closely with the HRSS Team Leader (Pensions) or taking on sole responsibility for the delivery of these.

1.7 By increasing the establishment on a permanent basis allows members of the Pensions Administration team to see a clearer career pathway and allows for succession planning which is challenging in smaller teams where specialised regulatory knowledge is required.

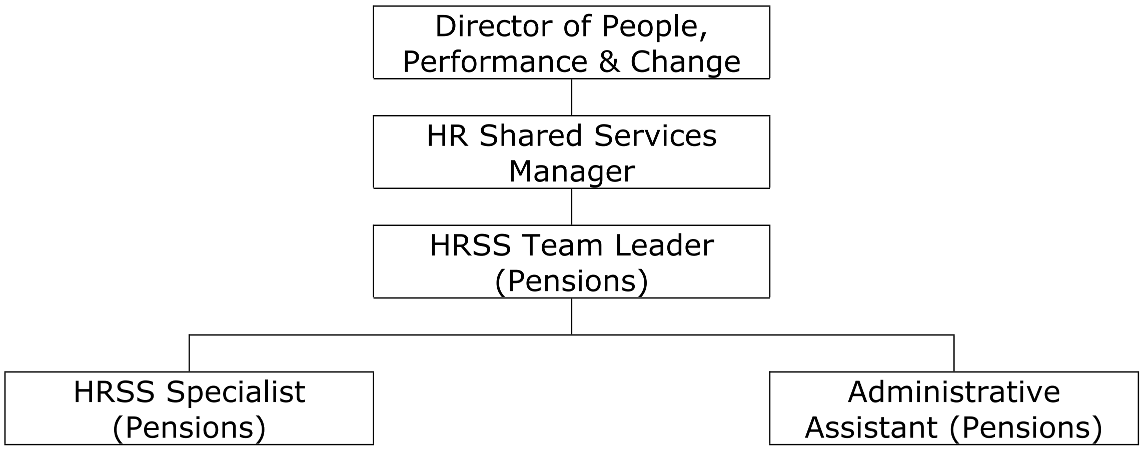
2 RECOMMENDATIONS

2.1 **It is recommended that the Pension Fund Committee agrees to the creation of the Pensions Officer position on a permanent basis, fully funded by the Pension Fund, and that recruitment proceeds at the earliest opportunity with a start date no earlier than 1 April 2024.**

3 BACKGROUND

3.1 The current staffing structure for the Pensions Administration Team has been in place since 23 May 2011 following a review of staffing covering Human Resources, Payroll and Pensions administration. This saw the formation of the current team, with no amendments made, other than the Directorate responsibility, since creation.

The current team structure is as follows:



3.2 For the above structure the following are paid, following recharge from Scottish Borders Council, by the Pension Fund: -

HR Shared Services Manager – Grade 12A – 0.25 FTE
HRSS Team Leader (Pensions) – Grade 8A – 1.00 FTE
HRSS Specialist (Pensions) – Grade 6A – 1.00 FTE
Administrative Assistant (Pensions) – Grade 5A – 3.00 FTE

3.3 Within the External Audit report of 2017/18 there was a recommendation from Audit Scotland that "Resource requirement of the Pension Fund should be assessed and addressed to ensure administration of the Fund is efficient and effective.", this covered both Finance and HR Shared Services.

This recommendation continued for a further 3 years, where resourcing within the Finance Team was addressed with the creation of a Finance Technician post for 21.00 hours.

No change was made to the staffing establishment within the HR Shared Services Team.

4 PENSIONS ADMINISTRATION CHANGES

4.1 Since 2011, when the current staffing structure as outlined at 3.1, was put in place there have been many changes that have impacted the resource requirements for the Pensions Administration team, some in a positive way but the majority adding to the complexity and workload of the team.

4.2 One thing that is notable is the very significant increase in membership of the Scottish Borders Council Pension Fund in each of the categories: -

As at	Active	Deferred	Pensioners	Total
31/03/2012	4,230	2,164	2,611	9,005
31/03/2023	4,842	3,187	4,532	12,561
Increase	612	1,023	1,921	3,556

As demonstrated above there has been a 39.48% increase in overall membership of the Pension Fund.

The ratio of Administration staff to Fund members is 1 to 1,813.

4.3 In 2015 the Local Government Pension Scheme regulations were changed to introduce a Career Average Revalued Earnings (CARE) scheme. This resulted in a third set of benefit entitlements for those who had been members of the scheme prior to 1 April 2009. For those who had been members of the scheme prior to 1 April 2015 there are two sets of benefit entitlements.

4.4 One of the positive moves that has been made from a Pensions Administration perspective is the introduction of Members Self Service. This allowed scheme members to run as many quotations as they wished without assistance from the admin team, update personal information and beneficiaries directly into the system and to provide Annual Benefit Statements through the online portal. Thus reducing resource, postage costs and helping the Fund contribute to the carbon footprint reduction through the reduced use of paper.

A further positive has been the introduction of the Insights Module, this has allowed the Pensions Administration Team to report on Data Quality without incurring additional cost and is something that the team will look to develop further to support the Fund with the Governance and Stewardship review actions points.

4.5 Over the past twelve years the team have also admitted new Employers to the Fund, some of which can be attributed to the increase in membership but mostly having seen scheme members transfer employer following TUPE. The new admitted bodies increase the number of annual reports that are required and increase the number of queries that the admin team receive from Auditors in support of the Employers production of Final Accounts.

New Employers: -

SB Cares (since transferred back to Scottish Borders Council)
CGI
SOSE

4.6 The administration team have also dealt with the GMP reconciliation project, although this has still to be formally completed, a consequence of other work being prioritised over this.

4.7 On the legislation front there have been many changes, the most notable that have either been laid before parliament and come into force or expected in the coming period are as follows: -

McCloud
Goodwin
Pensions Dashboard
Single Code of Practice

4.8 As agreed at the December 2023 meeting, the action plan around the Governance Review and Stewardship Code, introduces additional work for the team.

5 PROPOSAL

5.1 In order to address the changes outlined above and provide an improved service to all scheme members and employers it is proposed that the staffing establishment within the Pensions Administration team by 1.00 FTE on a permanent basis, which will be fully funded by the Pension Fund.

By introducing this new position, the ratio of scheme members to team members will be 1 to 2,093, which is still an increase from that applying as at 31 March 2012, but a significant improvement from the 1 to 2,512 that currently exists.

5.2 As many of the changes that the team are going to be facing are complex in nature a new position of Pensions Officer has been created. This new position has gone through the Scottish Borders Council Job Evaluation scheme and has been graded as a Grade 7A.

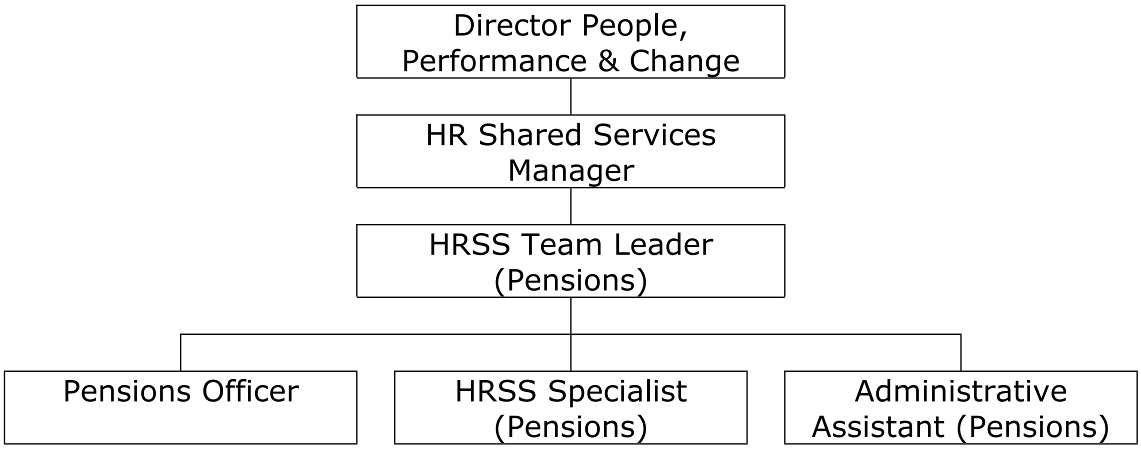
5.3 The purpose of this new position is: -

To provide specialist system, technical and process advice on the Local Government Pension Scheme (LGPS) to the Pensions team to ensure that processes comply with current legislative and statutory requirements. Be responsible for dealing with all Fund Employers, including the liaison with the Fund Actuary regarding statutory reporting and compliance with admission agreement for the Fund. Responsible for the Funds relationship with HMRC and making returns in accordance with deadlines.

Assisting the HRSS Team Leader (Pensions) in delivering projects as a result of legislative and regulatory changes, including the review and updating of Pension processes to ensure that Pensions Team staff are using the most current and relevant procedures and processes to deliver agreed service standards. Provision of support to Pensions staff in dealing with and/or checking complex or escalated Pension issues or processing non-standard transactions.

5.4 In keeping with the Scottish Borders Council approach a flat structure will be retained with the new position reporting to the HRSS Team Leader (Pensions) position and having no staffing responsibility.

The proposed team structure is as follows:



5.5 The introduction of this new post will not only allow the Pensions Administration team to deliver more for scheme members and employers but will help in succession planning and adds a clear career pathway for any individuals who may be looking to progress within the team, when the time comes.

5.6 The additional budget required for this position is as follows: -

Salary	30,891.97
Employers NI	3,007.29
Employers Pension	5,251.63
Total Cost	39,150.89

It is planned to introduce this new position from 1 April 2024 with recruitment taking place as soon as possible.

6 IMPLICATIONS

6.1 Financial

The introduction of the Pensions Officer position will incur an additional cost of £39,150.89 as outlined at 5.6 above.

6.2 Risk and Mitigations

The introduction of the Pensions Officer position will provide supporting and further mitigation to the following risks: -

PF301 ("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.") – by increasing the resources within the Pensions Administration team introduces clearer succession planning and the ability to upskill team members for progression into different positions within the team in the future.
PF302 ("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.") – by increasing the resources within the Pensions Administration team this has a positive impact on the ratio of scheme members to staff.
PF303 ("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.") – through improved communication with Scheme Employers.
PF304 ("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.") – by improving the segregation of duties alongside improved and up to date operating procedures.
PF401 ("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.") – through improved relationships with Scheme Employers.
PF501 ("Failure to administer and manage the Fund in line with requirements of legislation and other regulations e.g. LGPS regulations and HMRC may lead to benefits being calculated incorrectly and/or breach of legislation.") – increasing the resources within the Pensions Administration team increase capacity to deal with the ever changing and complex legislative position of the Local Government Pension Scheme and wider Pensions regulations.

6.3 **Integrated Impact Assessment**

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

No changes are required as a result of this report.

7 CONSULTATION

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

Approved by

Clair Hepburn
Director People Performance and Change

Author(s)

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

Background Papers:
Previous Minute Reference: Audit and Scrutiny Committee, 24 September 2018
Pension Fund Committee and Pension Board, 12 December 2023

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

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

Integrated Impact Assessment (IIA)

Stage 1 Scoping and Assessing for Relevance

Section 1 Details of the Proposal

A. Title of Proposal:	Pensions Administration Staffing
B. What is it?	A new Policy/Strategy/Practice ☐ A revised Policy/Strategy/Practice X
C. Description of the proposal: (Set out a clear understanding of the purpose of the proposal being developed or reviewed (what are the aims, objectives and intended outcomes, including the context within which it will operate)	Review the staffing levels within the Pensions Administration Team following the significant increase in scheme members, alongside the additional complexities that have been and are being introduced to the Local Government Pension Scheme and wider Pension legislation/regulation.
D. Service Area: **Department:**	Scottish Borders Council Pension Fund People, Performance and Change
E. Lead Officer: **(**Name and job title)	Ian Angus, HR Shared Services Manager
F. Other Officers/Partners involved: (List names, job titles and organisations)	
G. Date(s) IIA completed:	29th January 2024

Section 2 Will there be any impacts as a result of the relationship between this proposal and other policies?

~~Yes~~ / No *(please delete as applicable)*
If yes, - please state here:

Section 3 Legislative Requirements

3.1 Relevance to the Equality Duty:	
Do you believe your proposal has any relevance under the Equality Act 2010? *(If you believe that your proposal may have some relevance – however small please indicate yes. If there is no effect, please enter "No" and go to Section 3.2.)*	
Equality Duty	**Reasoning:**
A. Elimination of discrimination (both direct & indirect), victimisation and harassment. *(Will the proposal discriminate? Or help eliminate discrimination?)*	No, given the subject matter of this assessment, it is not relevant to Equality duty.
B. Promotion of equality of opportunity? *(Will your proposal help or hinder the Council with this)*	No, given the subject matter of this assessment, it is not relevant to Equality duty.
C. Foster good relations? *(Will your proposal help to foster or encourage good relations between those who have different equality characteristics?)*	No, given the subject matter of this assessment, it is not relevant to Equality duty.

3.2 Which groups of people do you think will be or potentially could be, impacted by the implementation of this proposal? (You should consider employees, clients, customers / service users, and any other relevant groups)				
Please tick below as appropriate, outlining any potential impacts on the undernoted equality groups this proposal may have and how you know this.				
	Impact			**Please explain the potential impacts and how you know this**
	No Impact	**Positive Impact**	**Negative Impact**	
Age Older or younger people or a specific age grouping	X			No impact or relevance.
Disability e.g. Effects on people with mental, physical, sensory impairment, learning disability, visible/invisible, progressive or recurring	X			No impact or relevance.
Gender Reassignment/ Gender Identity anybody whose gender identity or gender expression is different to the sex assigned to them at birth	X			No impact or relevance.
Marriage or Civil Partnership people who are married or in a civil partnership	X			No impact or relevance.
Pregnancy and Maternity (refers to the period after the birth, and is linked to **maternity** leave in the employment context. In the non-work context, **protection** against **maternity** discrimination is for 26 weeks after giving birth),	X			No impact or relevance.
Race Groups: including colour, nationality, ethnic origins, including minorities (e.g. gypsy travellers, refugees, migrants and asylum seekers)	X			No impact or relevance.

Religion or Belief: different beliefs, customs (including atheists and those with no aligned belief)	X			No impact or relevance.
Sex women and men (girls and boys)	X			No impact or relevance.
Sexual Orientation, e.g. Lesbian, Gay, Bisexual, Heterosexual	X			No impact or relevance.

3.3 Fairer Scotland Duty

This duty places a legal responsibility on Scottish Borders Council (SBC) to actively consider (give due regard) to how we can reduce inequalities of outcome caused by socioeconomic disadvantage when making strategic decisions.

The duty is set at a strategic level - these are the key, high level decisions that SBC will take. This would normally include strategy documents, decisions about setting priorities, allocating resources and commissioning services.

Is the proposal strategic?

~~Yes~~ / No ***(please delete as applicable)***

If No go to Section 4

If yes, please indicate any potential impact on the undernoted groups this proposal may have and how you know this:

	Impact			**State here how you know this**
	No Impact	**Positive Impact**	**Negative Impact**	
Low and/or No Wealth – enough money to meet basic living costs and pay bills but have no				

savings to deal with any unexpected spends and no provision for the future.				
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure and hobbies				
Area Deprivation – where you live (e.g. rural areas), where you work (e.g. accessibility of transport)				
Socio-economic Background – social class i.e. parents' education, employment and income				
Looked after and accommodated children and young people				
Carers paid and unpaid including family members				
Homelessness				
Addictions and substance use				
Those involved within the criminal justice system				

3.4 Armed Forces Covenant Duty *(Education and Housing/ Homelessness proposals only)*	
This duty places a legal responsibility on Scottish Borders Council (SBC) to actively consider (give due regard) to the three matters listed below in Education and Housing/ Homelessness matters. This relates to current and former armed forces personnel (regular or reserve) and their families. **Is the Armed Forces Covenant Duty applicable?** **~~Yes~~/ No** If "Yes", please complete below	
Covenant Duty	**How this has been considered and any specific provision made:**
The unique obligations of, and sacrifices made by, the armed forces;	
The principle that it is desirable to remove disadvantages arising for Service people from membership, or former membership, of the armed forces;	
The principle that special provision for Service people may be justified by the effects on such people of membership, or former membership, of the armed forces.	

Section 4 Full Integrated Impact Assessment Required

Select No if you have answered "No" to all of Sections 3.1 – 3.3.

~~Yes /~~ No *(please delete as applicable)*

If yes, please proceed to Stage 2 and complete a full Integrated Impact Assessment

If a full impact assessment is not required briefly explain why there are no effects and provide justification for the decision.

Report is a review of the staffing levels within the Pensions Administration Team and whilst proposing an increase in staffing numbers has no direct impact on equality as all members of the team will be considered fairly and equitably.

Signed by Lead Officer:	**Ian Angus**
Designation:	**HR Shared Services Manager**
Date:	**29th January 2024**
Counter Signature Director:	**Clair Hepburn**
Date:	**19/02/2024**

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PENSION FUND RISK REGISTER UPDATE

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2024

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to provide the Members of the Pension Fund Committee and Pension Board with an update on the review of the refreshed Pension Fund Risk Register.**

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.

1.3 At the joint meetings of the Pension Fund Committee and Pension 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;
(b) 22 September 2023 – progress update on the proposals to amalgamate and re-categorise the risks on a more manageable scale; and
(c) 12 December 2023 – progress estimated at 80% with a summary of the refreshed Pension Fund Risk Register.

1.4 This report provides the outcome of the full formal review of the risks in the refreshed Pension Fund Risk Register and outlines the next steps.

2 RECOMMENDATIONS

2.1 I recommend that the Pension Fund Committee:
a) Acknowledges the full formal review of the risks in the refreshed Pension Fund Risk Register;
b) Approves the refreshed Pension Fund Risk Register set out in Appendix 1; and
c) Notes that quarterly Pension Fund Risk Register updates will be presented to the joint meetings of the Committee and Board.

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.

3.2 At the joint meeting of the Pension Fund Committee and Pension 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 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 At the joint meeting of the Pension Fund Committee and Pension Board on 12 December 2023, a summary of the refreshed Pension Fund Risk Register was presented, estimating that approximately 80% of the Risk Review activity was complete as at 23 November 2023. The outcome of the refresh was the reduction in the number of risks on the Pension Fund Risk Register from 51 risks to 17 risks through mostly amalgamation, and some removal, of risks within the following Categories: Funding; Investment; Administration; Governance; and National Policy / Regulations.

4 RECENT RISK REGISTER REVIEW ACTIVITY

4.1 Since the Pension Fund Risk Register Update report was presented on 12 December 2023, the Chief Officer Audit & Risk and the Corporate Risk Officer have completed the remaining elements of the amalgamation of a number of risks, removal of risks outwith its control, and re-categorisation of the remaining risks within the refreshed Pension Fund Risk Register. This has continued to be a significant undertaking, requiring research and learning along the way.

4.2 Thereafter, formal risk reviews by the Risk Owners i.e. the Director of Finance & Procurement, Director People Performance & Change, and HR Shared Services Manager, associated with the 17 risks on the refreshed Pension Fund Risk Register were facilitated by the Chief Officer Audit & Risk and the Corporate Risk Officer.

4.3 The formal risk review for each of the risks has taken account of the amended or enhanced risk descriptions, and common risk factors/causes, consequences, and control measures to avoid duplication. These have been used to assess the effectiveness of each control measure in mitigating the impact and/or likelihood of the risk materialising, and in turn evaluating the current risk score. Where the assessment of the control measure is deemed to not be fully effective, further risk mitigation actions have been identified for implementation by relevant officers within realistic timescales. It was noted that some of the improvements within the Governance Review and Stewardship Code Action Plan will indeed be further mitigation actions.

4.4 The following table summarises the risk categorisation and risk ratings from the refreshed Pension Fund Risk Register, the details of which are shown in Appendix 1 for information and formal approval.

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

5 RISK MANAGEMENT NEXT STEPS 2024/25

5.1 The Corporate Risk Officer will upload the Pension Fund Risk Register into the Council's performance and risk management system (Ideagen – formerly Pentana). This will provide benefits in the recording, and routine risk review, monitoring and reporting of risks. It should be noted that the presentation format of the Pension Fund Risk Register will look different in future using reports generated from the Ideagen system, whilst the core elements of managing risks will remain the same.

5.2 The Risk Programme of Work for the Corporate Risk Officer in 2024/25 will continue to be developed on a quarterly rolling basis to incorporate the cycle of Pension Fund Risk Register reviews by the Risk Owners (in accordance with Pension Fund Risk Management Policy and Strategy, subject to its approval at 4 March 2024 meeting).

5.3 The Pension Fund Risk Register reporting activity will be aligned to the cycle of business to be considered at the joint meetings of the Committee and Board (in accordance with Pension Fund Risk Management Policy and Strategy, subject to its approval at 4 March 2024 meeting).

5.4 Subject to the approval of Pension Fund Risk Management Policy and Strategy at 4 March 2024 meeting, 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 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.

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 & 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: 12 December 2023

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

Contact us at Emily.Elder@scotborders.gov.uk

Pension Fund - Risk Register

							Original Risk			Controls		Current Risk		
No.	**Category**	**Risk**	**Risk Factor/Cause**	**Effect/Consequences**	**Proximity**	**Risk Owner**	**Impact**	**Likelihood**	**Score**	**Current Controls**	**Control Assessment**	**Impact**	**Likelihood**	**Score**
PF101	Funding	If the Investment Strategy is inconsistent with the Funding Strategy it may lead to assets of the fund being insufficent to meet future liabilities.	Lack of appropriate & sufficient information to inform strategies; Lack of knowledge & skills; Failure to forward plan; Co-depenency of Investment Strategy & Funding Strategy; Sufficiency of resources/lack of capacity; Failure to undertake scenario planning re. potential investment returns.	Future liabilities of the Fund may not be covered by its assets; Employer contribution rates are set incorrrectly; Unplanned requirement for Employers to increase contribution rates to address funding shortfall.	Ongoing - Cyclical Risk	Director Finance & Procurement	3	3	9	Full actuarial valuation undertaken on Triennial basis; March 2021 Triennial Funding Strategy Statement and March 2023 Annual Statement of Investment Strategy Statement updated and approved at the same time as the Strategy Review; Investment Strategy completed post Triennial valuation (Last done June 2021); Funding Strategy Statement approved by Committee in March 2021; Statement of Investment Principles approved by Committee in March 2023; Revised Strategic Asset Allocation (approved in June 2021) a key part of Statement of Investment Principles; Information Update to Joint Committee/Board quarterly meeting; Remedial actions, in consultation with Employer Contributors can be taken to address funding shortfalls; Ongoing dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations; Committee Set objectives for Investment Advisor and monitor this on an annual basis (this is a regulatory requirement); Investment Strategy informs Funding Strategy; Funding Strategy developed using a range of scenarios relating to Investment Performance.	All Fully Effective	3	2	6
Notes:														
PF103	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.	Failure by employer to notify the fund of significant changes of membership (human error/inaccurate information); Failure to monitor/reconcile contributions received; Failure to apply and demonstrate fairness in the treatment of different scheme employers; Loss of income for employer resulting in inability to fund contributions; Increases in early retirements (e.g. ill health, voluntary severance etc.) leading to employers' requirement to fund the strain on the Pension fund); Employer default (missed deadline anomalies/inaccurate contribution amount); Worst case scenario - Scheme employer ceasing to operate and bond/guarantee being insufficient to fund exit costs; Failure to set appropriate Funding Strategy.	Shortfall in cash flow to pay pensioners; Incurred deficit could result in cross-subsidisation of employers out with the agreed pooling arrangements; Requirement for scheme employers who are in deficit to make this up; Possible shortfall in assets to cover the Pension Fund liabilities; Improper management of the Fund.	Ongoing	Director Finance & Procurement	4	3	12	Full actuarial valuation undertaken on Triennial basis (next valuation underway in 2023); Bonds in place for Amey and CGI, and Council agreement in place for Live Borders & Guarantee in place with SG for SOSE; Bonds and guarantees monitored on annual basis; Monthly monitoring of Scheme Employer Contributions; Movement to closed scheme requires Actuarial review; Contribution rates based on open/closed status of scheme employer; Updated Admission Agreement Policy 2019; Funding Strategy sets required contributions for all Scheme Employers and reflects the circumstances of employers (incl. cessation responsibilities); Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA, SOSE & CGI to reflect employer situations; Ensure full reporting of options are presented to the Committee and Board as and when employer circumstances change to ensure decision making fully informed; Annual declaration now required from each scheme employer (incl. changes to the scheme membership for current and future years); Annual Employers Liaison group established to improve two-way communication, provide clarification of expectations and evaluate their position; Active involvement of actuary in projects affecting membership structures where Scheme Employers exit or enter the Fund; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission.	All Fully Effective	3	2	6
Notes:														
PF104	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.	Lack of information to inform Acturial Assessment; Economic Drivers (e.g. CPI inflation/pay increases); Mortality levels; Poor Investment Returns; Reducing workforce (e.g. number and value of early retirements, recruitment & retention challenges); Changes in composition of Pension Fund membership, i.e. active/deferred/pensioners.	Insufficient cash flow to fund current obligations or insufficient funding to cover future liabilities; Incorrect Emloyer contibutions being set leading to potential requirement to increase employer contributions; Fund Matures more quickly than currently anticipated and may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due; Potential requirement to change Funding & Investment Strategies outwith planned reviews.	Ongoing	Director Finance & Procurement	3	3	9	Full actuarial valuation undertaken on Triennial basis; Detailed dialogue with Actuary ahead of valuation to agree evidence-based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions; Any strain on fund incurred paid by scheme employer at point of retirement (Ill health/early retiral/voluntary severance strains); Regular monitoring of investment performance (including when medium to long term trend in returns is identified); Longer-term monitoring of cash flow position/Forecasting; Funding Strategy, Statement of Investment Principles and Triennial Valuation all aligned to identify funding requirements and how these are met; Use of an Investment Adviser and Actuarial services as required; Pension Administration Strategy in place and monitored; Scheme Employer Liaison Group in place; Annual Report includes analysis of membership changes; Estimated monthly cash flow completed and monitored and reported to Committee on quarterly basis.	All Fully Effective	3	2	6
Notes:														

Pension Fund - Risk Register

							Original Risk			Controls		Current Risk		
No.	**Category**	**Risk**	**Risk Factor/Cause**	**Effect/Consequences**	**Proximity**	**Risk Owner**	**Impact**	**Likelihood**	**Score**	**Current Controls**	**Control Assessment**	**Impact**	**Likelihood**	**Score**
PF201	Investment	Failure to achieve the target investment returns set out in the Investment Strategy may lead to an inability to sufficiently meet future liabilites and could lead to incurring costs associated with implementing changes to the Investment Strategy.	Inappropriate strategic asset allocation; Inappropriate investment approaches within asset class; Underperformance / negative investment returns; Investment Strategy inconsistent with Funding Strategy; Lack of information from fund managers; Underperformance of Investment Manager(s); Failure of Investment Managers to prevent fraud, misappropriation or erroneous investment activity; Insufficient scrutiny of manager mandates; Lack of investment performance monitoring; Lack of officer capacity; Significant and sustained Global market and socio-economic events/factors; Failure to undertake horizon scanning.	Costs involved in implementing changes to Investment Strategy (e.g. changing investment managers); Funding Deficit for Fund; Returns do not suffcently cover current and future liabilites; Inability to achieve the target investment returns set out in the Investment Strategy; Liabilities increased beyond levels covered by assets; Employers may to need pay more contributions into Fund to meet shortfall; Financial and/or information loss in relation to investment assets.	Ongoing	Director Finance & Procurement	4	5	20	Engagement with Investment Adviser to update Investment Strategy (strategic asset allocation and introduction of other asset types); Formal investment advice provided by Investment Advisor to Committee; Quarterly monitoring of Investment Strategy by Committee; Robust procurement processes around the investment managers; Diversification of investment managers; Ongoing dialogue with Fund Actuary (Hymans-Robertson); Annual review of Statement of Investment Principles; Continual monitoring of investment performance by Investment & Performance Sub-Committee (to which Fund Managers attend); Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Continual monitoring of investment performance against benchmark, targets and tolerance; Monitor and evaluation of inflation and pay awards; Engagement with Investment Adviser to monitor external environment and set benchmarks for investment managers; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations; Information Update to quarterly Joint Board/Committee meeting; Reconciliation of Custodian to Investment Manager Records through accounts process; Further Diversification of investment managers; Pension Fund regulated by FCA; Receipt of annual controls reports from Investment Managers' External Auditors; Legal recourse within contracts.	All Fully Effective	4	2	8
Notes:														
PF202	Investment	Failure to react to major changes in market/economic conditions may lead to an inability to manage the fund properly resulting in significant adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions incl. negative changes in currrancy rates; Lack of comprehensive market knowledge and horizon scanning; Failure to invest in a diverse range of assets; Failure to encompass 'lessons learned' within future Strategies; Failure to monitor investment performance; Failure to recognise and capitalise on investment opportunities.	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities.	Ongoing	Director Finance & Procurement	4	5	20	Diversification of asset classes, geographical spread and investment managers; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Continual monitoring of investment performance; Scrutiny of Strategic Asset Allocation and Investment performance by Investment & Performance Sub-Committee; Information Update taken to Joint Board/Committee meeting every quarter; Follow advice of external advisers that fund should take long term view of currency fluctuations.	All Fully Effective	4	2	8
Notes:														
PF203	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.	Higher than anticipated levels of retirement; Higher levels of lump sums or commutation of pension taken on retirement; Changing demographics - increased early retrials, ill health retiral, withdrawal, 50:50 uptake, commutation marriage/partnership; Wider pension access reforms ("freedom of choice") may lead to pension fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential for a significant change in the liability profile for the Fund; Failure to ensure pension transfer payments due to/payable by the fund are calculated accurately and received/paid resulting in incorrect funds being held within the Fund to pay future benefits to individuals.	Requirement to divest investment assets at an unattractive time or missing investment opportunities which result in an adverse impact on the value of the Fund's assets; Negative pressure on cash flow and funding equation; Insufficient funds transferred/received to meet future obligations; Failure to meet the rights of transferring members in accordance with regulations; Referral to the Pension Regulator; Reputational damage; Requirement to release large unexpected payment amounts to members; Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position.	Ongoing	HR Shared Services Manager / Pension Investment & Accounting Manager	4	3	12	Investment strategy (Strategic Asset Allocation) adjusted to ensure income returned to Pension Fund to fund any cash shortfall; Daily and weekly monitoring of Pension Fund's Cash flows; Estimated monthly cash position identified; Investment Strategy monitored; Monitoring of active numbers and cash flow and reported to Committee quarterly; Scheme Employers to notify the Fund of any significant changes to membership numbers; Pension administration system (Altair) continues to provide automated support in calculation, using nationally approved factors, at point of transfer; Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC; With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct Authority (FCA) regulated adviser, includes signed declaration by individual; Continue to monitor ongoing legislation around this area; Communication Strategy agreed and website launched.	All Fully Effective	3	1	3
Notes:														

Pension Fund - Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk: Impact	Original Risk: Likelihood	Original Risk: Score	Controls: Current Controls	Controls: Control Assessment	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score
PF301	Administation	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.	Availability of resources; Single Points of Failure (SPOFS); Absence of succession management in relation to supporting crucial aspects of the operation of the Fund; Officers do not maintain sufficient levels of skills, kowledge & experience; Changes in legislation; New investment types and vehicles; Lack of documented procedures. Small size of Teams supporoting work of Pension Fund.	May lead to significant knowledge gaps resulting in failure to manage and operate the Fund effectively; Inability to provide decision making support & advice; Delay in or lack of progress in implementation of required developments to achieve Business Plan Objectives; Negative cost implications associated with procuring external expertise.	Ongoing	Director Finance & Procurement / Director People, Performance & Change	3	4	12	Use of external advisers (investment/tax/SPPA) provides additional resilience and resources and helps to supplement knowledge; Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Teams structured to reduce single points of failure and manage succession planning (Finance & HR); Procedure notes written, tested, system of regular review agreed (Finance & HR); Competency appraisal process implemented to identify and fulfill training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group to keep abreast of any new developments/requirements.	Fully Effective Partially Effective (help modules will need to continuously evolve) Partially Effective (linked to Team Size, recruitment/retention, retirements etc.) Partially Effective (pockets of improvements to be made.) Partially Effective (see new action.) Partially Effective (location of F2F meetings can be a barrier.)	3	3	9

Notes:

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk: Impact	Original Risk: Likelihood	Original Risk: Score	Controls: Current Controls	Controls: Control Assessment	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score
PF302	Administation	Failure to process pension payments and lump sums on time may lead to financial distress for retiring staff and potential referral to the Pensions Regulator and/or external auditor resulting in the possibility of penalty costs and reputational damage.	Insufficient information from member or employer; Lack of access to pension fund system administration information (Altair); Lack of access to BW system to process payments; Absence of specialist pension admin resource; Lack of Business Continuity Plans; Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer (Lack of monitoring; Lack of segregation of duties).	Financial distress for retired staff; Potential referral to the Pensions Regulator and/or external auditor; Potential for penalty costs to be levied; Reputational damage; Inability to provide a high quality pension service to members.	Ongoing	HR Shared Services Manager	3	3	9	Pension administration system with remote access available for staff (Cloud hosted); Business World used for monthly pension payments with remote access available for staff; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; CHAPS Payments through Banking Team in event of BW failure (only if access to banking info is possible or we have paper copy detials/previous months BACS details) - Business Continuity Planning; Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programmes cover the monitoring of fraud/misappropriation risk. Participation in National Fraud Initiative in line with other Public Sector Organisations.	Fully Effective Fully Effective Fully Effective Patially Effective (SPOFS, very specialst area and takes time to skill staff up, succession planning, recuitment) Fully Effective Fully Effective Fully Effective Fully Effective Fully Effective	3	2	6

Notes:

Pension Fund - Risk Register

							Original Risk			Controls		Current Risk		
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
PF303	Administation	Failure to collect and account for contributions from employers and employees on time may lead to adverse cash flow implications for the Fund potentially resulting in adverse external audit opinion, referral to the Pensions Regulator, reputational damage and requirement to divest investments to fund the cash flow deficit.	External employers not remitting contributions on time; Sufficiency of communication with employers e.g. to advise on changes in contacts/rates following triennial valuation; Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer (Lack of monitoring; Lack of segregation of duties).	Adverse cash flow implications for the Fund; Adverse external audit opinion; Referral to the Pensions Regulator; Reputational damage; Requirement to divert investments to fund the cash flow deficit; Inability to provide a high quality pension service to members; Financial loss to the Fund; Negative impact on benefits paid to members.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programmes covers the monitoring of fraud/misappropriation risk. Scheme Employers submit a copy of their audited accounts, to confirm the internal controls they have in place for the LGPS pension process in relation to their membership of the Scottish Borders Council Pension Fund.	Fully Effective Fully Effective Fully Effective Partially Effective (SPOFs, very specialist area and takes time to skill up staff, succession planning, recuitment) Fully Effective Fully Effective Fully Effective Partially Effective	2	2	4
Notes:														
PF304	Administation	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.	Lack of controls (e.g. segregation of duties); Lack of monitoring; Lack of procedures; Lack of training and awareness; Lack of info from members and employers; Human error (incl. via self-serve function for pension members); IT systems failure; Cyber attacks.	Data lost or compromised; Potential financial Penalty from Information Commissioner; Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions payments or transfers being paid; Reputational damage/loss in credability; Potential negative impact on Pension Fund Cash Flow.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system with remote access available for staff; Business World used for monthly pension payments with remote access available for staff; Staffing structure of HR Shared Services continues to monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained in mandatory Information Management (Data Protection; GDPR) and fully compliant: annual refresh required. Annual Statements issued to active and deferred members, including list of beneficiaries. Form included for changes or discrepancies; Communication strategy reviewed annually by Board/Committee; Self-service function available to all active and deferred members to ensure personal information is up-to-date; Restricted system access re. pensions administration - Altair; Overpayments Policy in place.	Fully Effective Fully Effective Partially Effective (SPOFs, very specialist area and takes time to skill up staff, succession planning, recuitment) Fully Effective Fully Effective Fully Effective Partially Effective Partially Effective Fully Effective	3	3	9
Notes:														
PF305	Administation	If there is a cyber security breach then we may lose data realting 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.	Hacking or malware attacks; Failure to update software systems; Human error; Lack of apppropriate training and awareness.	Security breach; Loss of data; Breach of GDPR legislation; Inability to process payments to pensioners; Reputational damage/complaints; Litigation; Potential negtaive knock-on impacts to other software systems from hacking attack; Negative impact on resources to undertake remedial actions; Negative cost implications associated with remedial actions.	Ongoing	HR Shared Services Manager	5	4	20	Hosted environment for pension admin system (Altair); IT contractual requirements for all IT providers (system back-ups, software upgrades & Disaster Recovery Plans); CGI have contractual resipionsibility for security of BW ERP; Monitored and regularly improved firewalls; Security installed on all hardware devices; Hymans are adopting Multi Factor Authentication (MFA) for all users of their system; Mandatory Information Secuity E-Learning Course for all staff (incl. Cyber Security); Business Continuty Plan.	Fully Effective Fully Effective (we have a depency on suppliers for assurances) Fully Effective Fully Effective Partially Effective (to be delivered) Partially Effective (work underway following Digital Securty maturity asessment to add to this provision) Partially Effective (to be reviewed following new BC2 system)	5	2	10
Notes:														

Pension Fund - Risk Register

							Original Risk			Controls		Current Risk		
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
PF401	Governance	If we do not engage with and maintain good relationships with Scheme employers and if Scheme employers are not apropriately represented then inefficiences in the operation of the Pension Fund may arise as scheme employers may not understand their roles and responsbilities relating to the Pension Fund.	Failure by scheme employer to notify the fund of significant changes of membership; Changes to composition of employees; Fund participation no longer affordable to a scheme employer; Lack of consistent enagement and communication with scheme employers.	Inefficiencies in operation of Pension Fund may arise; Any required changes re. scheme employer participation are not known about/not implemented; Scheme employers do not understand or implement their roles and responsibilities.	Ongoing	Director Finance & Procurement / Director People, Performance & Change	3	4	12	Annual Employers Liaison group established to improve two-way communication; SBC, Borders College (Scheduled Bodies) and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Communication strategy approved and website launched; Active involvement of actuary in projects affecting membership structures where Scheme Employers exit or enter the Fund; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission; Annual Declaration to include changes of scheme membership for current and future years (incl. acknowledgement of roles and responsibilities); Each scheme employer has a designated point of contact; Current Funding Strategy contains detials of cessation actions.	All Fully Effective	3	2	6
Notes:														
PF402	Governance	If Pension Fund Committee and Board members do not understand thier 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 for the achievment of Pension Fund Obejctives.	Member lack understanding of their role on the Pension Fund. Knowledge and experience gap of new members; Over reliance on key Members of the Board or Committee may lead to lack of challenge and objectivity in decision making resulting in failure to manage the Fund effectively; Failure to provide appropriate training programme/Availability of Members to attend training; Failure to take expert advice; External adviser provides inappropriate/inaccurate/ insufficient advice to Committee/Officers. Conflict of interest for Elected Members on Pension Fund Committee and Board between Council priorities and Pension Fund Management priorities.	Uninformed decision making could lead to inadequate investment returns and/or insufficient funding levels; Failure to govern the Fund effectively; Failure to achieve Pension Fund's Primary aim and underpinning objectives; Referral to the Scheme Advisory Board and/or Pension Regulator; Legal challenge.	Ongoing	Director Finance & Procurement / Director People, Performance & Change	4	4	16	Scheme of Administration, Constitutions and Code of Conduct established for the Committee and Board providing clarity of roles and responsibilities; Approved Training Policy sets out skills and knowledge responsibilities for members; All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board; Skills and Knowledge Assessment informs the Annual Training Plan; Training opportunities are made available to Members of Board and Committee; Participation in training is published in Annual Report; All Members of the Pension Fund Committee and Pension Board are actively involved in the discussions with External Advisers and have access to the same information; Pension Fund Sub-Committee and nominated reps of Board are actively involved in discussions with investment managers; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Benchmark performance against other Pension Funds and cross verification of advice through Local Govt. Pension Scheme (Scotland) Investment & Governance Group.	Partially Effective (Governance Review & Stewardship Code Action Plan incl review Training Policy) Fully Effective Fully Effective Fully Effective Fully Effective Fully Effective Fully Effective Fully Effective Fully Effective Fully Effective Partially Effective (current resource constraint to attend)	4	2	8
Notes:														
PF403	Governance	Failure of the Fund's Governance arrangements may lead to ineffective management of the Fund resulting in legal repercussions and reputational damage	Failure to adhere to existing and new legislation; Failure to understand remit and responsibilites; Failure to comply with Governance; Failure to appoint relevant advisers and review their performance; Lack of Officer capacity to monitor governance arrangements; Delays in implementation of decisions; Competing priorities/conflicting interests of members; Fraudulent or negligent activity; Lack of skills and knowledge to make informed decisions; Lack of oversight and transparancy of governance; Failure to routinely evaluate effectiveness of governance arrangements; Failure to make use of wider sources of assurance (Internal & External Audit).	Ineffective management of the Fund; Reputational damage; Loss of scheme employer(s) confidence; Referral to Scheme Advisory Board and/or Pension Regulator; Potential Legal Challenge; Potential for Ultra vires pension fund actions to be taken; Failure to achieve Pension Fund objectives; Reducing the effectiveness of decisions; Potential loss of information; Potentially adversely impacting on the ability to maximise investment returns; Loss incurred or reduced income received.	Ongoing	Director Finance & Procruement	4	3	12	Up to Date Constitution for Pension Board; Scheme of Administration for Pension Fund Committee; Training provided to Members and Officers; Review of Governance structures undertaken on annual basis as part of Statutory Accounts process via Compliance Statement; Publication of annual report via website and electronic copies circulated to all Scheduled and Admitted bodies; 2023 Self-Assessment undertaken against Stewardship Code and subsequent Action Plan created; Appropriate procurement of external advisors to meet needs; Annual review undertaken with Investment Advisor and Custodian (collaboative review of e.g. practices and self-appraisal); Decisions minuted and appropriate staff assigned to implement required action(s); Implementation timescales prioritised according to risk exposure levels and available resource levels; Agreed Committee actions monitored by Democratic Services; 3-year Business Plan developed and approved on an annual basis and monitored in year; Contact with SPPA for advice as required; Engagement with and implemtation of recommendations from Internal & External Audit; Monitor custodian performance and credit rating.	Fully Effective (except below) Partially Effective (Training provided for Members and Officers - some work to be undertaken on this during 2024/25) Partially Effective (2023 Self-Assessment undertaken against Stewardship Code - implementation of Action Plan)	4	2	8
Notes:														

Pension Fund - Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Original Risk: Impact	Original Risk: Likelihood	Original Risk: Score	Controls: Current Controls	Controls: Control Assessment	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score
PF501	National Policy / Regulations	Failure to administer and manage the Fund in line with requirements of legislation and other regulations e.g. LGPS regulations and HMRC may lead to benefits being calculated incorrectly and/or breach of legislation.	Changes to legislation; Lack of staff training; Lack of knowledge and skills; Failure to comply with the Pensions Regulator's Code(s) of Practice; Lack of monitoring, oversight & scrutiny; Lack of external assurance arrangements.	Wrong pension payments made or estimates given; Breach of regulations/legislation; Prosecution; Reputational damage; Sanctions from Pensions Regulator.	Ongoing	HR Shared Services Manager/ Pension Investment & Accounting Manager	4	3	12	Compliance with accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates; External Audit review extends beyond financial controls; Pensions Board/Committee have oversight, scrutiny and monitoring roles; Staff Appraisal process in place to identify training and development requirements.	Fully Effective Partially Effective (resourcing at present and drive by network for in-person meetings) Fully Effective Fully Effective Partially Effective (training need identification vs. capacity to undertake training)	4	2	8
Notes:														
PF502	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.	Central Govt. legislative changes; Government Actuary Department review and subsequent regulatory changes; Changes to LGPS Structures; Lack of knoweldge and resources to implement required changes.	Loss of independence in the management of the Fund if LGPS structures change; Impact on Fund value and benefits; Increased costs to the Fund and increased employer contributions; Worst case scenario - Fund may cease to exist, assets and adminstration may be pooled. Potential breach of regulations.	Ongoing	Director Finance & Procurement	5	5	25	Participation as appropriate in CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Monitoring and highlighting actions and decisions from Scheme Advisory Board; Monitoring of political position via Scheme Advisory Board; Commissioning of Consultants to undertake formal assessments against regulatory requirements as needed; Regular Training Sessions for the Board, Committee and Officers.	Partially Effective Fully Effective Fully Effective Fully Effective Fully Effective	4	3	12
Notes:														
PF503	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.	Lack of staff and Member skills & knowledge; Lack of capacity and resources; Lack of information from Investment Managers; Lack of clear Pension Fund policies; Increasing effect of climate change on global economy and regulatory expectations; Speed at which changes to legislation are implemented. Failure to track and monitor compliance with statutory and regualtory changes. Changing consumer demand patterns results in obsolescence, impairment or stranding of assets. Resulting in reduced investment returns.	Failure to manage the Pension Fund in line with ESG Policy Statement; Reputational damage; Regualtory/Statutory Breach; Enchanced scrutity of Pension Fund; Poor Audit Report findings (Internal & External).	Ongoing	Director Finance & Procurement	4	4	16	Training provided to Members and Officers on their roles and fiduciary responsibility; Responsible Investment policy approved with agreed priorities; Only invest with Fund Managers who have strong ESG credentials; Monitoring on quarterly basis (via the Pension & Investment Performance Sub-Committee) of Segregated Portfolios voting policy contained within Statement of Investment Principles (including support for United Nations Priciples for Repsonsible Investment (UNPRI)); Responsible Investment Policy annual monitoring report by Committee and Board completed; Positive engagement with Internal & External Auditors; Isio provide routine reports to Pension Fund Committee on ESG considerations.	All Fully Effective	4	2	8
Notes:														

RISK MANAGEMENT POLICY AND STRATEGY FOR THE SBC PENSION FUND

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2024

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to provide the Members of the Pension Fund Committee, for their consideration and approval, the Risk Management Policy statement and Risk Management Strategy 2024-2026 for the SBC Pension Fund.**

1.2 Effective Risk Management is one of the foundations of effective governance of the SBC 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 SBC Pension Fund.

1.3 At the Joint meeting of the Pension Fund Committee and Pension Board on 12 December 2023 it was noted that a separate Risk Management policy and strategy for the SBC Pension Fund would be developed.

1.4 This report sets out the proposed Risk Management Policy statement (Appendix 1) and Risk Management Strategy 2024-2026 (Appendix 2) for the SBC Pension Fund for consideration and approval by the Pension Fund Committee. This will ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration.

2 RECOMMENDATIONS

2.1 I recommend that the Pension Fund Committee:

a) Approves the Risk Management Policy Statement (Appendix 1) and the Risk Management Strategy 2024-2027 (Appendix 2) for the SBC Pension Fund.

b) Acknowledges the roles and responsibilities of the Committee and Board within the Risk Management Policy.

c) Notes the reporting for assurance purposes on the efficacy of risk management arrangements within the Risk Management Policy.

d) Agrees to a discussion on the risk management approach in practice, as part of a Training Session in 2024.

3 BACKGROUND

3.1 Effective Risk Management is one of the foundations of effective governance of the SBC 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 SBC Pension Fund.

3.2 It was proposed within the risk management recommendations made by the Independent Consultant in December 2022 that the Committee and Board should consider having a risk management framework for the SBC Pension Fund.

3.3 At the Joint meeting of the Pension Fund Committee and Pension Board on 22 December 2023 it was noted within the Risk Register Update report that a separate Risk Management policy and strategy for the SBC Pension Fund would be developed for approval by the Committee in March 2024.

4 RISK MANAGEMENT POLICY STATEMENT

4.1 The Risk Management Policy Statement at Appendix 1 defines risk and risk management, outlines the vision, and states the roles and responsibilities in managing the risks of the SBC Pension Fund. The Senior Officers (SBC) supporting the Pension Fund have the primary responsibility to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund. The Committee and Board, while the statutory roles and functions are separate, need to be assured that risks to the achievement the SBC Pension Fund's primary aim and underpinning objectives are being adequately managed, and also be content that risk-based information is sufficient to support sound decision-making.

4.2 Approval of the Risk Management Policy and Strategy by the Pension Fund Committee will ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration.

5 RISK MANAGEMENT STRATEGY 2024-2026

5.1 The 3-year Risk Management Strategy 2024-2026 at Appendix 2 outlines the approach that will be adopted to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund, in support of the Risk Management Policy Statement. It will enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process.

5.2 The Risk Management Strategy is based upon the professional standards in the Management of Risk (M_o_R) Guide and CIPFA guidance "Managing Risk in the Local Government Pension Scheme". The strategy is underpinned by:

- A clear and widely understood structure to secure implementation
- A commitment to achievement
- Appropriate training arrangements
- Regular monitoring and reporting arrangements

6 IMPLICATIONS

6.1 Financial

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

6.2 Risk and Mitigations

Approval by the SBC Pension Fund Committee of the Risk Management Policy statement (Appendix 1) and Risk Management Strategy (Appendix 2), as proposed in this report, will ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration.

6.3 Integrated Impact Assessment

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report, based on the completion of the Integrated Impact Assessment (IIA); a full IIA is not required.

For good governance purposes, a new Risk Management Policy statement and 3-year Risk Management Strategy are designed to ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration, and to enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process.

6.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist. However, the application of practices associated with the SBC Pension Fund's Risk Management Policy and Strategy is fundamental to deliver its primary aim and to the achievement of its underpinning objectives, including its sustainable investment goals.

6.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration. Good governance including the management of risks, is important to enable the SBC Pension Fund to achieve its primary aim and underpinning objectives.

6.6 Rural Proofing

The Risk Management Policy and Strategy are unlikely to have a different impact in rural areas, based on completion of the checklist.

6.7 Data Protection Impact Statement

All Risk Management activity will be carried out in accordance with appropriate legislation; this includes the Data Protection Act 2018.

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: SBC Pension Fund Risk Register
Previous Minute Reference: Joint Pension Fund Committee and Pension Board 12 December 2023

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

Contact us at Emily.Elder@scotborders.gov.uk

RISK MANAGEMENT POLICY STATEMENT

Introduction

What is a Risk

An uncertain event or set of events that, should they occur, will have an effect on the achievement of objectives.
It consists of a combination of the likelihood of a threat, or equally an opportunity, happening and the impact should it happen. Risks are scored and prioritised to ensure they are controlled and managed effectively.

What is Risk Management

The activities required to identify, understand and control exposure to uncertain events which may threaten the achievement of objectives. Equally, it reflects the activities required to capitalise on opportunities in order to progress the achievement of objectives.

Why is Risk Management Important to the SBC Pension Fund

The SBC Pension Fund faces a wide range of risks in the delivery of its functions. The aim of this policy is to communicate why risk management should be undertaken, provide a common risk management language and a description of the approach that will be adopted by the SBC Pension Fund to manage its risks. This policy is supported by the Risk Management Strategy, which is underpinned by the framework, principles, approach and processes set out as professional standards in the Management of Risk (M_o_R) Guide and CIPFA guidance "Managing Risk in the Local Government Pension Scheme".

Awareness and management of risks is a key control of the SBC Pension Fund's strategic and operational activities. To demonstrate sound corporate governance the SBC Pension Fund is committed to a strong control environment to ensure that risks are identified, evaluated, managed and monitored appropriately, with the outcome that better and more assured risk management will bring many benefits to the SBC Pension Fund and its stakeholders.

Vision

Appropriate and effective risk management practice will be embraced by the SBC Pension Fund as an enabler of success to deliver its primary aim, which is 'to provide for members, pension and lump sum benefits on their retirement or for their dependants, benefits on death before or after retirement, on a defined benefits basis'.

The SBC Pension Fund recognises that risk management should be aligned with its objectives and will therefore be considered within the business planning process. This ensures that the strategic and operational risks to achieving these objectives are identified and prioritised.

The SBC Pension Fund will continue to systematically identify, analyse, evaluate, control and monitor those risks where there is exposure to significant financial, strategic, and reputational damage in relation to the achievement of its objectives, whether related to funding from scheme employers, investment practices, administrative processes, governance arrangements or regulatory obligations.

Roles and responsibilities

Pension Fund Committee and Pension Board

While the statutory roles and functions of the Pension Fund Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pension Fund Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture.

The Pension Fund Committee will:

- approve the SBC Pension Fund's Risk Management Framework (i.e. Policy and Strategy) for implementation; and
- receive and review risk reports on the SBC Pension Fund risks to ensure risks to the achievement of its primary aim and underpinning objectives are being adequately managed, and in accordance with the framework.

The Pension Fund Committee Members will also need to assure themselves that they have adequate information on risks and mitigations linked to report recommendations, to ensure they are fully informed when making decisions covering new policies, strategies and plans.

The Pension Board Members will need to be assured that appropriate risk management arrangements are in place.

Senior Officers (SBC) supporting the Pension Fund

Senior Officers (SBC) supporting the Pension Fund will: ensure that they understand the risk policy, process and reporting requirements; ensure that the risk register is maintained and risks are identified, analysed, evaluated, treated and reviewed; challenge the status of identified risks; draw to the attention of the Committee/Board any emerging risks which may threaten the achievement of objectives; support internal and external audits; prepare the Risk and Mitigations section of Committee Reports to ensure that full risk information is provided to enable informed decision-making.

Chief Officer Audit & Risk (SBC)

The Chief Officer Audit & Risk (SBC) will: develop and maintain the Pension Fund risk management policy and strategy, and underpinning procedures, ensuring these are communicated effectively to all those relevant; prepare risk update reports for presentation to the Committee/Board; and review the Risk and Mitigations section of Committee Reports to check that full risk information is provided.

Corporate Risk Officer (SBC)

The Corporate Risk Officer (SBC) will support the management of risk in the SBC Pension Fund by: facilitating risk review activity to ensure that the processes and procedures set out in the policy and strategy are followed; supporting the Chief Officer Audit & Risk in the preparation of risk update reports and the review of Committee Reports to check risk and mitigations; and preparing and delivering Risk Management Training for the members of the Committee and Board, and officers, to reflect the Pension Fund Risk Management Policy and Strategy.

Risk appetite, tolerance and capacity

Risk appetite is how much risk the SBC Pension Fund is willing to seek and accept, which must be compatible with the level of risk it can tolerate associated with its capacity to bear and manage the consequences of a risk should it materialise. A consistent approach to identifying and analysing risk will be followed, using the SBC Pension Fund Risk Matrix as a guide. This will be supported by the Risk Management Strategy to ensure that the SBC Pension Fund, nor its stakeholders, are exposed to an unknown, unmanaged or unacceptable degree of risk.

Risk management process

Risk management is not a one-off exercise. It is a continuous process because the decision-making processes it underpins are continuous. Risk management must become an integrated part of good management within the SBC Pension Fund, but not be over bureaucratic and a process for its own justification. To these ends it will be aligned with the business planning process and the performance monitoring and reporting schedule.

Risk management will be applied to every activity relating to the SBC Pension Fund. It will be part of the decision-making process when developing and reviewing policies, strategies and plans. This will be supported by the Risk Management Strategy to ensure the consistent application of the risk management framework.

Reporting for Assurance Purposes

Reporting, to support fulfilment of roles and responsibilities set within the Policy, will include:

- A quarterly risk register update report to the SBC Pension Fund Committee/Board.
- An annual assurance statement on the application of the risk management framework within the Annual Report and Accounts.

Policy Review

The Risk Management Policy, Strategy and process for the SBC Pension Fund will be reviewed annually to ensure their continued relevance and effectiveness. Assurances and any recommended areas for improvement received from Internal Audit and External Audit, as well as best practice and lessons learned on risk management, will be considered as part of the annual review process. This policy will be subject to document control, version control, and will be revised every three years to reflect changes in legislation, risk management best practice, and significant changes in corporate governance.

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Scottish Borders Council Pension Fund

Risk Management Strategy

Version No.	1.0		
Date Effective:	March 2024	Next Review Date:	March 2027

CONTENTS

1. Introduction to the Strategic Approach to and Benefits of effective Risk Management

1.1 The Scottish Borders Council Pension Fund (Pension Fund) is committed to the application of appropriate and effective risk management practices in order to deliver its primary aim, which is 'to provide for members, pension and lump sum benefits on their retirement or for their dependants, benefits on death before or after retirement, on a defined benefits basis'.

1.2 The Pension Fund champions a culture where those supporting the function of the Pension Fund (SBC Senior Officers and external advisers) are encouraged to develop new initiatives, improve performance and achieve objectives safely, effectively and efficiently by appropriate application of good risk management practices.

Key benefits of effective risk management:

- appropriate, informed, and timeous decisions are made;
- risk 'aware' not risk 'averse' decisions are based on a balanced appraisal of risk and enable acceptance of certain risks in order to achieve a particular goal or reward;
- better achievement of objectives and targets;
- better use and prioritisation of resources;
- high level of stakeholder experience/satisfaction;
- demonstrates good governance and transparency; and
- supports a positive reputation for the Pension Fund.

1.3 The Pension Fund believes that appropriate application of good risk management practices will assist in the prevention or mitigation/minimisation of negative impacts and will increase success in the achievement of objectives and targets set in the associated SBC Pension Fund Business Plan and Strategies, and ensure decision-makers are risk aware.

1.4 The Pension Fund purposefully seeks to promote an environment that is risk 'aware' and strives to place risk management information at the heart of key decisions. This means that the Pension Fund can take an effective approach to managing risk in a way that both addresses significant challenges and enables positive outcomes.

1.5 The Pension Fund promotes the pursuit of opportunities that will benefit the delivery of its primary aim, as stated in 1.1. As such, the Pension Fund acknowledges that risks may need to be taken to capitalise on opportunities but these must be carefully evaluated in the context of the anticipated benefits versus any potential negative impacts.

2. Risk Management Strategy

2.1 Objectives

This strategy takes a positive and holistic approach to risk management. The scope of this strategy applies to risks where there is exposure to significant financial, strategic, and reputational damage in relation to the achievement of its objectives, whether related to funding from scheme employers, investment practices, administrative processes, governance arrangements or regulatory obligations.

The primary objectives of this strategy are to:

- Ensure that the risk management framework is applied consistently and with appropriate oversight.
- Establish standards and principles for the efficient and effective management of risks affecting the delivery of its primary aim, including regular monitoring, reporting and review.
- Identify how and what risk information will be reported to the Pension Fund Committee/Board.

2.2 Scheme Governance Structure

The governance structure of the SBC Pension Fund can be seen below, including the roles each of the parties undertakes. The Pension Fund Committee and Pension Board meet jointly four times a year, with papers and minutes being available 10 days prior to the meeting.

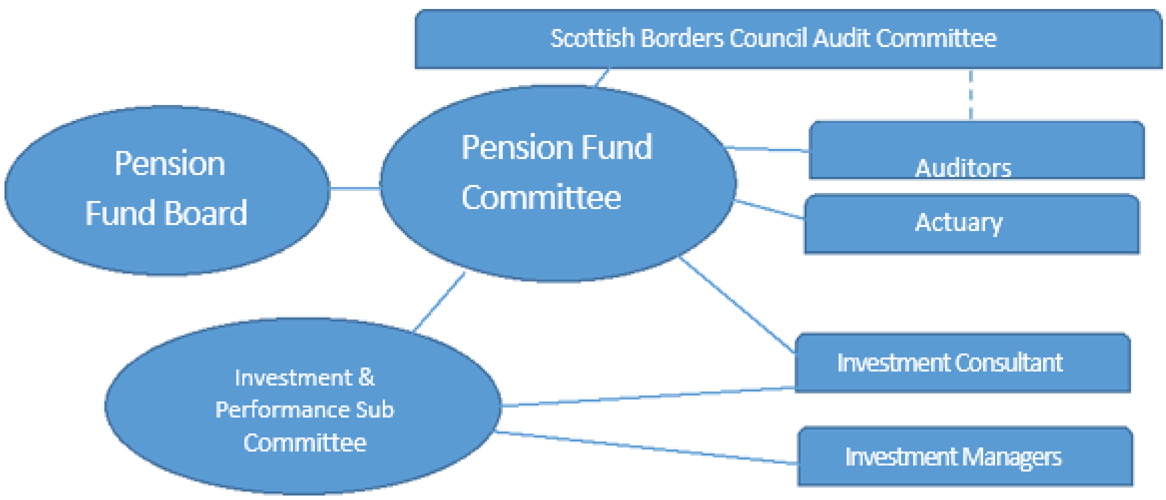

Diagram 1: Pension Fund Governance Arrangements Source: Annual Report and Accounts 2022/23

Pension Fund Committee – is the main decision-making body for the Fund and is comprised of seven Scottish Borders Council Councillors: One member of the Executive, three members of the Administration, two members of the opposition, and one other elected member.
Pension Board – assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The Pension Board consists of four employer representatives and four employee Union representatives.
Investment & Performance Sub-Committee – develops investment strategy and monitors investment performance. Consists of the Pension Fund Committee Members, one employer and one employee representative from the Pension Board.
Actuary – provides advice on funding. This role is currently undertaken by Hymans Robertson.
Investment Consultant – provides advice on all aspects of investment objectives, strategy and monitoring. This role is currently undertaken by Isio.
Investment Managers – manage the investment portfolios.
Auditors – provide audit assurance that the Fund is adhering to regulations, other legislation, and requirements of the Pension Regulator. The internal audit function is provided by Scottish Borders Council's Internal Audit service and the external audit function is provided by Audit Scotland.
Scottish Borders Council Audit Committee – provides independent scrutiny of the Pension Fund Committee's adequacy, effectiveness and systems of internal control.

2.3 Risk Management Framework and Process

Compliance with the principles of good governance requires the SBC Pension Fund to adopt a coherent approach to the management of risks that it faces in order to achieve its primary aim and underpinning objectives.

Risk Management is about the culture, processes and structures that are directed towards realising potential opportunities whilst managing adverse effects. It is proactive in understanding risk and uncertainty; it learns and builds upon existing good practice and is a continually evolving process that has an important role in ensuring that informed and beneficial decisions are made.

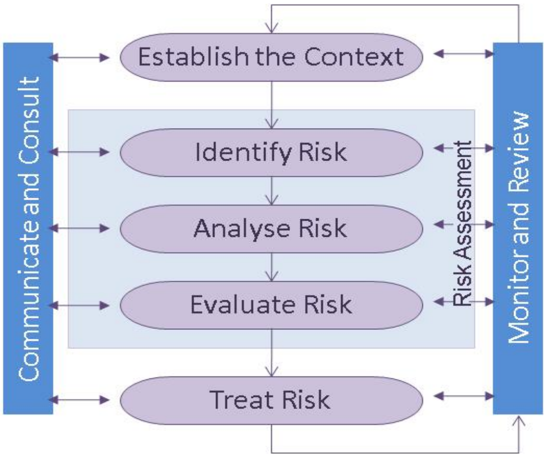

Diagram 2: Standard risk management process

For consistency the SBC Pension Fund will **adopt the standard risk management process** shown in the diagram 2. The standard as outlined makes clear that risk management is a dynamic process, with frequent review of existing risks and monitoring of the environment necessary to ensure the risks identified represent the current landscape in which the SBC Pension Fund operates.

Risk management tools for the purpose of supporting the risk management process (risk identification, analysis, evaluation, treatment and review) will be used by the SBC Pension Fund (i.e. Risk Identification Prompt List (PESTLE), Risk Matrix, and Process Guide). A **Risk Appetite** toolkit will be developed to ensure consistency of the approach to managing risks and to provide guidance on those levels of risks which are acceptable and those which are not in relation to any given Risk Category.

The SBC Pension Fund risk register will be maintained, reviewed and presented for oversight purposes to fulfil the roles and responsibilities, as set out in the Risk Management Policy Statement for the SBC Pension Fund. **The risks represent the potential for the SBC Pension Fund to achieve (opportunity) or fail to meet (threat) its primary aim and objectives as set out within its Business Plan.** Key to this will be the identification and application of governance and internal controls to manage the identified risks.

The SBC Pension Fund operates in a dynamic and challenging environment, and as such Risk Management should not be seen as a one-off process. It is a ongoing process because circumstances and business priorities can, and do, change. Therefore risks (both threats and opportunities) and their internal controls and mitigation actions will be regularly reviewed to inform the business planning and performance management processes. The frequency of risk reviews will be proportionate to the **risk rating** - **Red (High) risks will be reviewed at least quarterly; Amber (Medium) risks at least bi-annually; and Green (Low) risks at least annually**. The regular risk review activity will ensure that any significant changes in the operating environment are reflected in the risk register.

The **Risk Review activity** will be facilitated by the Corporate Risk Officer (SBC) who will engage with Risk Owners (Senior Officers (SBC) supporting the Pension Fund) and specialists, such as the Actuary and the Investment Consultant, to ensure their input relevant to their roles is captured.

2.4 Reporting of Risks to the Pension Fund Committee/Pension Board

The Chief Officer Audit & Risk will deliver a quarterly risk register update report to the joint meetings of the SBC Pension Fund Committee and Pension Board, ensuring they have adequate oversight to fulfil their roles and responsibilities with regard to the management of risk. The following table illustrates the Quarterly Meeting Cycle by Risk Category to enable the members of the Committee/Board to focus on specific risks at each meeting which are broadly aligned to the established business reporting cycle:

Risk Category	Quarterly Meeting Cycle
Investment	March
Administration	June
Governance	September
National Policy / Regulations	September
Funding	December

The Chief Officer Audit & Risk will prepare an annual assurance statement on the application of the risk management framework during the course of the year relating to the SBC Pension Fund, for inclusion within its Annual Report and Accounts. This provides the opportunity to communicate the extent to which the principles contained in the Risk Management Framework have been applied, thus demonstrating transparency and accountability to its stakeholders.

2.5 Monitoring and Evaluation of Risk Management Performance

Measuring, managing and monitoring risk management performance is key to the effective delivery of the objectives within the SBC Pension Fund Business Plan, helping to ensure that risk management adds value to the Fund's activities.

As part of its planned assurance work for the SBC Pension Fund, the SBC Internal Audit function will review the efficiency and effectiveness of Risk Management arrangements and associated internal controls put in place by Management and provide independent assurance on the effectiveness of the Risk Management Strategy and activities. This will form part of its assurance on the SBC Pension Fund's governance arrangements that underpin the annual audit opinion reported to the SBC Pension Fund Committee/Board.

2.6 Strategy Review

The Risk Management Policy, Strategy and process for the SBC Pension Fund will be reviewed annually to ensure their continued relevance and effectiveness. This strategy will be subject to document control, version control, and will be revised every three years to reflect changes in legislation, risk management best practice, and significant changes in governance and internal controls.

The Strategy (version 1.0) was approved by the Pension Fund Committeee at the joint meeting of the Committee/Board on ……

Integrated Impact Assessment (IIA)

Stage 1 Scoping and Assessing for Relevance

Section 1 Details of the Proposal

A. Title of Proposal:	SBC Pension Fund Risk Management Policy & Strategy 2024-2026
B. What is it?	A new Policy/Strategy/Practice ☑ A revised Policy/Strategy/Practice ☐
C. Description of the proposal: (Set out a clear understanding of the purpose of the proposal being developed or reviewed (what are the aims, objectives and intended outcomes, including the context within which it will operate)	A new Risk Management Policy statement and 3-year Risk Management Strategy to ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration and to enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process.
D. Service Area: **Department:**	Audit & Risk Corporate Governance
E. Lead Officer: **(**Name and job title)	Jill Stacey Chief Officer Audit & Risk
F. Other Officers/Partners involved: (List names, job titles and organisations)	Emily Elder, Corporate Risk Officer
G. Date(s) IIA completed:	8 February 2024

Section 2 Will there be any impacts as a result of the relationship between this proposal and other policies?

No; though this policy permeates across SBC Pension Fund activities so indirectly associated with other relevant SBC PF policies.
If yes, - please state here:

Section 3 Legislative Requirements

3.1 Relevance to the Equality Duty:

Do you believe your proposal has any relevance under the Equality Act 2010? No
(If you believe that your proposal may have some relevance – however small please indicate yes. If there is no effect, please enter "No" and go to Section 3.2.)

Equality Duty	**Reasoning:**
A. Elimination of discrimination (both direct & indirect), victimisation and harassment. *(Will the proposal discriminate? Or help eliminate discrimination?)*	
B. Promotion of equality of opportunity? *(Will your proposal help or hinder the Council with this)*	
C. Foster good relations? *(Will your proposal help to foster or encourage good relations between those who have different equality characteristics?)*	

3.2 Which groups of people do you think will be or potentially could be, impacted by the implementation of this proposal? (You should consider employees, clients, customers / service users, and any other relevant groups)				
Please tick below as appropriate, outlining any potential impacts on the undernoted equality groups this proposal may have and how you know this.				
	Impact			Please explain the potential impacts and how you know this
	No Impact	Positive Impact	Negative Impact	
Age Older or younger people or a specific age grouping				
Disability e.g. Effects on people with mental, physical, sensory impairment, learning disability, visible/invisible, progressive or recurring				
Gender Reassignment/ Gender Identity anybody whose gender identity or gender expression is different to the sex assigned to them at birth				
Marriage or Civil Partnership people who are married or in a civil partnership				
Pregnancy and Maternity (refers to the period after the birth, and is linked to **maternity** leave in the employment context. In the non-work context, **protection** against **maternity** discrimination is for 26 weeks after giving birth),				
Race Groups: including colour, nationality, ethnic origins, including minorities (e.g. gypsy travellers, refugees, migrants and asylum seekers)				

Religion or Belief: different beliefs, customs (including atheists and those with no aligned belief)				
Sex women and men (girls and boys)				
Sexual Orientation, e.g. Lesbian, Gay, Bisexual, Heterosexual				

3.3 Fairer Scotland Duty

This duty places a legal responsibility on Scottish Borders Council (SBC) to actively consider (give due regard) to how we can reduce inequalities of outcome caused by socioeconomic disadvantage when making strategic decisions.

The duty is set at a strategic level - these are the key, high level decisions that SBC will take. This would normally include strategy documents, decisions about setting priorities, allocating resources and commissioning services.

Is the proposal strategic?

No - ***For good governance purposes, a new Risk Management Policy statement and 3-year Risk Management Strategy are designed to ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration and to enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process.***

If No go to Section 4

If yes, please indicate any potential impact on the undernoted groups this proposal may have and how you know this:

	Impact			State here how you know this
	No Impact	**Positive Impact**	**Negative Impact**	
Low and/or No Wealth – enough money to meet basic living costs and pay bills but have no				

savings to deal with any unexpected spends and no provision for the future.				
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure and hobbies				
Area Deprivation – where you live (e.g. rural areas), where you work (e.g. accessibility of transport)				
Socio-economic Background – social class i.e. parents' education, employment and income				
Looked after and accommodated children and young people				
Carers paid and unpaid including family members				
Homelessness				
Addictions and substance use				
Those involved within the criminal justice system				

3.4 Armed Forces Covenant Duty ***(Education and Housing/ Homelessness proposals only)***	
This duty places a legal responsibility on Scottish Borders Council (SBC) to actively consider (give due regard) to the three matters listed below in Education and Housing/ Homelessness matters. This relates to current and former armed forces personnel (regular or reserve) and their families. **Is the Armed Forces Covenant Duty applicable?** **No** If "Yes", please complete below	
Covenant Duty	**How this has been considered and any specific provision made:**
The unique obligations of, and sacrifices made by, the armed forces;	
The principle that it is desirable to remove disadvantages arising for Service people from membership, or former membership, of the armed forces;	
The principle that special provision for Service people may be justified by the effects on such people of membership, or former membership, of the armed forces.	

Section 4 Full Integrated Impact Assessment Required

Select No if you have answered “No” to all of Sections 3.1 – 3.3.

No

If yes, please proceed to Stage 2 and complete a full Integrated Impact Assessment

If a full impact assessment is not required briefly explain why there are no effects and provide justification for the decision.

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

For good governance purposes, a new Risk Management Policy statement and 3-year Risk Management Strategy are designed to ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration and to enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process.

Signed by Lead Officer:	**Jill Stacey**
Designation:	**Chief Officer Audit & Risk**
Date:	**8 February 2024**
Counter Signature Director:	
Date:	

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PENSION FUND BUDGET MONITORING TO 31 December 2023 AND BUDGET 2024/25

Report by Director of Finance and Procurement

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

04 March 2024

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 31 December 2023 and seek agreement of the proposed budget for 2024/25.**

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 third quarterly monitoring report of the approved budget.

1.4 The total expenditure to 31 December 2023 is £6.010m (see section 4.1 for breakdown) with a projected total expenditure of £6.997m against a budget of £6.953m.

1.5 The proposed budget for 2024/25 is £7.558m, a breakdown of the anticipated costs is included in Appendix 1.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee:-

(a) Agrees the project expenditure for 2023/24 as the revised budget for 2023/24 and

(b) Agrees the proposed budget of £7.558m set out in table 4.1 for financial year 2024/25.

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

4 MONITORING TO 31 DECEMBER 2023

4.1 The table below shows the expenditure to 31 December 2023, projected outturn to 31 March 2024 and current approved budget for 2023/24.

	Expenditure to 31 December 23 £000’s	Projected to 31 March 24 £000’s	2023/24 Budget £000’s	2023/24 Variance £000’s	2024/25 Proposed Budget £000’s
Investment Management	4,144 (see 4.2)	6,008	6,008	0	6,627
Administration	260	518 (see 4.3)	474	44	646
Oversight & Governance	366	471	471	0	285
Total	**4,770**	**6,997**	**6,953**	**44**	**7,558**

4.2 Investment Management fees are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. A number of third quarter's investment management fees have been received, with the remaining estimated for the expenditure to 31 December 2023.

4.3 Increased projected spend for Administrative Costs are as a result of higher pay award for Scottish Borders Council staff than originally forecast, final payment for McCloud changes to the system and additional work carried out by the Fund Actuary, at the request of officers, to support Triennial Valuation process.

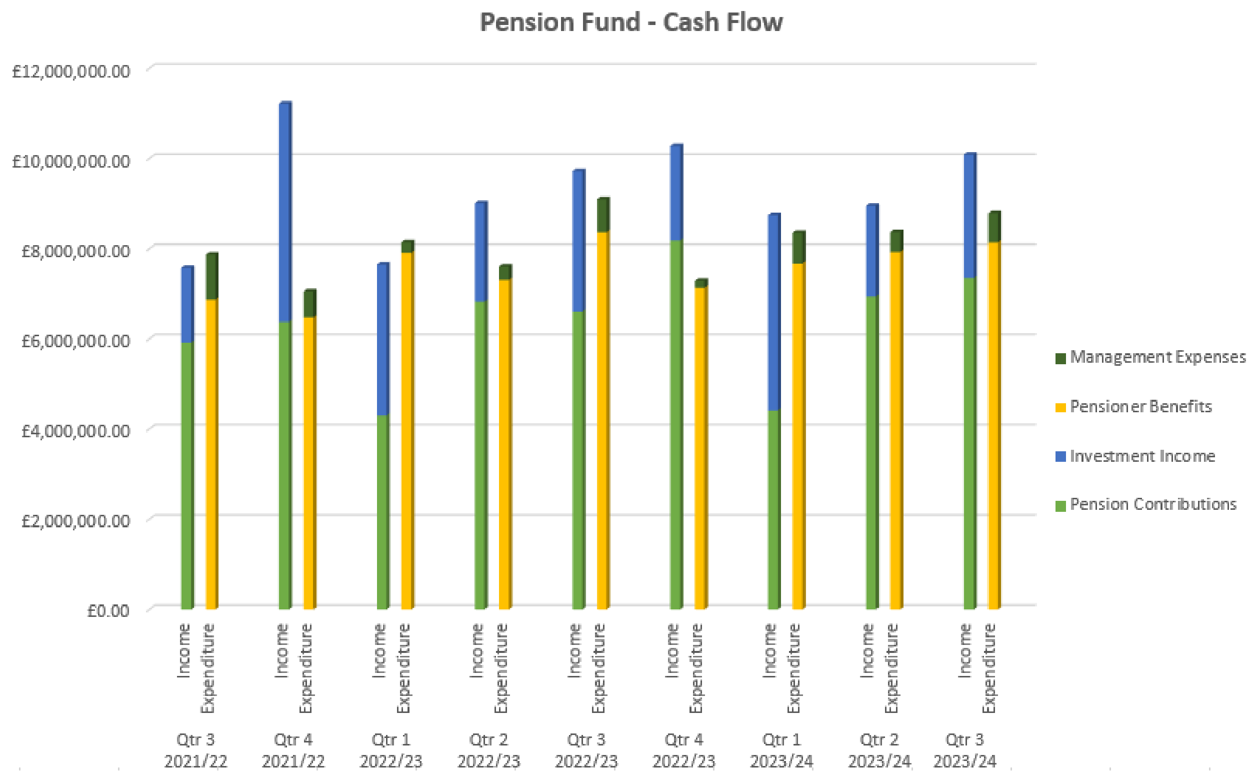
4.4 Appendix 1 includes a breakdown of Proposed Budget for 2024/25. The Administration figures include an assumption that the increasing staffing within the Pensions Administration team will be approved as per report to be presented at this meeting and the Licence Fee for the 5 year extension of the Pensions Administration software is due this year as a one off cost.

5 CASHFLOW MONITORING

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

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

5.3 The graph below reflects cash expenditure for pension benefits, investment manager fees and operational costs of the Fund on a quarterly basis from October 2021 to December 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 quarters with surplus income and others with deficits. However over the 24 month period shown the total cash received was £83.2m, cash expenditure was £72.5m, resulting in a cash surplus of £10.7m over the period. This surplus has been utilised in part to fund draw down notices from the Infrastructure managers.

6 IMPLICATIONS

6.1 Financial
There are no costs attached to any of the recommendations contained in this report.

6.2 Risk and Mitigations
This report is part of the governance framework to manager the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks are managed in line with the Council's Risk Management framework, with specific risks and controls monitored and reported on a quarterly basis.

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

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

6.5 **Climate Change**
There are no direct climate change impacts as a result of this report.

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

6.7 **Data Protection Impact Statement**
There are no personal data implications arising from the proposals contained in this report.

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

7 CONSULTATION

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

Approved by

Suzy Douglas **Signature ....**
Director of Finance and Procurement

Author(s)

Name	Designation and Contact Number
Suzy Douglas	Director of Finance and Procurement 01835 82600 extension 5881

Background Papers: Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 12 December 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.

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

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Pension Fund Budget 2024/25
Appendix 1

Administrative	£
Software-Licences and Maintenance	337,039
Actuarial Services	26,300
Other External Services	8,776
SBC Financial Management Services	273,107
Travel Expenses (Officers)	500
Total Administrative Costs	**645,722**
Investment Management	
Investment Manager Fees	6,566,883
Custody Fees	60,000
Total Investment Management Costs	**6,626,883**
Oversight & Governance	
Travel Expenses (Committee & Board)	2,000
Investment Consultant Costs	665
Performance Measurement Fees	31,000
Pension & Lifetime Savings Association Membership	2,906
Single Code Review	25,000
Accounting Fees-NT	18,000
Bank Charges	200
Fees Other	2,000
External Audit Services	26,370
SBC Financial Management Services	177,378
Total Oversight & Governance Costs	**285,519**
Grand Total	**7,558,124**

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INTERNAL AUDIT ANNUAL PLAN 2024/25 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2024

1 PURPOSE AND SUMMARY

1.1 **The purpose of this report is to present for approval the Internal Audit Annual Plan 2024/25 for the Scottish Borders Council Pension Fund to enable the Chief Officer Audit & Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**

1.2 The Public Sector Internal Audit Standards requires the organisation’s Chief Audit Executive (CAE), Scottish Borders Council’s Chief Officer Audit & Risk, to establish risk-based plans to set out the areas of Internal Audit activity, consistent with the primary aim and underpinning objectives of the Pension Fund.

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

1.4 The proposed Internal Audit Annual Plan 2024/25 for the Pension Fund in Appendix 1 sets out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process include a clear understanding of the organisation’s functions, associated risks, and assurance framework.

1.5 There are resources currently in place to achieve the Internal Audit Annual Plan 2024/25 for the Pension Fund and to meet its objectives.

2 RECOMMENDATIONS

2.1 **I recommend that the Pension Fund Committee:**

a) Approves the Internal Audit Annual Plan 2024/25 for the Scottish Borders Council Pension Fund; and

b) Notes that any changes in-year will be brought back for its approval.

3 BACKGROUND

3.1 The Internal Audit service to Scottish Borders Council Pension Fund is provided by the Scottish Borders Council (SBC) Internal Audit function.

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

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

3.3 Key components of the audit planning process include a clear understanding of the primary aim and underpinning objectives of the Pension Fund, risks and mitigating controls, the roles and responsibilities of the Pension Fund Committee and the Pension Board, and other internal and external assurances provided, in order to determine the potential range and breadth of audit areas for inclusion within the plan.

3.4 The Internal Audit Charter and Internal Audit Strategy associated with SBC's Internal Audit function, to be presented for approval by SBC's Audit Committee on 11 March 2024, are applicable to the Scottish Borders Council Pension Fund. The Internal Audit Strategy outlines the strategic direction for how the Internal Audit function will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality Internal Audit services to various entities, including the Scottish Borders Council Pension Fund.

4 INTERNAL AUDIT ANNUAL PLAN 2024/25 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND

4.1 The Internal Audit proposed work for 2024/25 has been informed by the risks, controls and mitigation actions as set out within the refreshed Pension Fund Risk Register to ensure that the Internal Audit plan is risk-based and provides relevant assurance for the Pension Fund. During the course of the most recent Pension Fund Risk Register review activity that has been carried out by SBC Management, to capture potential areas of risk more fully, this information has included Management's assessment of the effectiveness of current controls and further mitigation actions planned.

4.2 The Internal Audit proposed work for 2024/25 has been informed by key business plan developments at a local level and other relevant background information associated with pension funds at national and global levels.

4.3 The Internal Audit Annual Plan 2024/25 at Appendix 1 has been developed by the SBC Chief Officer Audit & Risk (CAE). It sets out the range and breadth of audit activity and sufficient work to enable the CAE to prepare an Internal Audit annual opinion for the Scottish Borders Council Pension Fund.

4.4 Internal Audit resources relating to the provision of assurance services to the Scottish Borders Council Pension Fund are outlined in the Scottish Borders Council Internal Audit Annual Plan 2024/25, which will be presented for approval by SBC's Audit Committee on 11 March 2024. A total of 20 days has been allocated to provide Internal Audit assurance services to the Scottish Borders Council Pension Fund for 2024/25, which reflects the Council's contribution of corporate support resources. This allocation of Internal Audit days is broadly in line with current year 2023/24 activity, which reflects the increase in the range and breadth of internal audit work for the Pension Fund.

4.5 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 PSIAS) needed to deliver the Plan.

4.6 It is envisaged that 2024/25 will continue to be a year of change for the SBC Pension Fund. Therefore, the Plan should be considered to be flexible and will be periodically reviewed, and amended if required, to reflect any new arrangement or changing risks and priorities. Any amendments relating to the SBC Pension Fund will be discussed with relevant SBC Officers and will be brought to the appropriate joint meeting of the Pension Fund Committee and Pension Board for approval by the Pension Fund Committee.

5 REPORTING OF INTERNAL AUDIT RESULTS

5.1 The Internal Audit Annual Plan 2024/25 for the Pension Fund includes sufficient work to enable SBC's Chief Officer Audit & Risk (the appointed CAE to the Pension Fund) to prepare an annual independent and objective audit opinion on the adequacy of the Scottish Borders Council Pension Fund's arrangements for risk management, governance and control.

5.2 At the end of the year, the Internal Audit Annual Assurance Report 2024/25 for the Scottish Borders Council Pension Fund will be presented by the CAE to Management and to the Pension Fund Committee and Board, for governance and scrutiny purposes. The assurance report will include:

- the statutory audit opinion based on the Internal Audit work during the year;
- the results from each audit category outlining the risks, controls and conclusions;
- progress with implementation and outcomes of agreed improvement actions; and
- any recommendations that have been made, with the associated Management response, responsible owner and timescale for implementation.

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

6 IMPLICATIONS

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

6.2 **Risk and Mitigations**
As part of the audit planning process to ensure Internal Audit work is risk-based, the most recent risk review activity of the refreshed Pension Fund Risk Register that was carried out by the Director of Finance & Procurement, Director of People Performance & Change, and HR Shared Services Manager of Scottish Borders Council has been considered to capture potential areas of risk more fully.

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

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

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

6.5 **Climate Change**
This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration. Good governance including the provision of Internal Audit assurance services, is important to enable the Pension Fund to achieve its primary aim and underpinning objectives.

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 of Finance & Procurement, Director of People Performance & Change, and HR Shared Services Manager of Scottish Borders Council have been consulted on the proposed coverage within the Internal Audit Annual Plan 2024/25 for the SBC Pension Fund to ensure Internal Audit assurance activity covers the most significant risks, in order to meet the needs of Management and other key stakeholders of the Pension Fund.

7.2 In addition, Scottish Borders Council's Director of Corporate Governance (and Monitoring Officer), and Corporate Communications have been consulted on this report and appendix 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: 9 March 2023

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

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

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Scottish Borders COUNCIL

Internal Audit Annual Plan 2024/25 for Scottish Borders Council Pension Fund

Ref	Category	Audit	Commentary
1.	Assurance	Internal Control, Governance and Risk Management	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. Specific review of the Pension Fund's risk management arrangements, taking account of the refresh of the risk register and new risk management framework.
2.	Assurance	Business plan improvements and developments	Specific review of progress with the key tasks and actions within the Business Plan that are due to be completed during 2024/25 in alignment with Pension Fund's primary aim and underpinning objectives. Carry out independent validation of the actions undertaken each quarter to implement the agreed improvements within the Governance Review and Stewardship Code Action Plan.
3.	Assurance	Administration practices	Review progress on implementation of further planned risk mitigation actions with reference to the Management assessment of effectiveness of existing controls associated with pension fund administration practices, including resources, segregation of duties, processes, data and information management, and assess compliance with the Pension Fund's Administration Strategy.
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 2023/24 audit assurance work and check on the adequacy of new internal controls.
5.	Other	Advice and Consultancy	As a 'critical friend' to Management, provide advice and internal challenge on projects involving major change and systems implementation.
6.	Other	Committee / Board meetings	Prepare for and attend joint Committee / Board meetings and other relevant forums to observe planning, approval, monitoring and review activity of business and performance.
7.	Other	Audit Planning for 2025/26	Consider risks and audit universe, develop and consult on proposed coverage within the Internal Audit Annual Plan 2025/26 for the SBC Pension Fund.
		Total 20 days	

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Scottish Borders Council Pension Fund

Annual Audit Plan 2023/24 – DRAFT

Audit Scotland

Prepared for Scottish Borders Council Pension Fund
March 2024

Contents

Introduction

Summary of planned audit work

1. John Boyd has been appointed by the Accounts Commission as external auditor of Scottish Borders Council Pension Fund (the Pension Fund) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of the five-year audit appointment.

2. This document summarises the work plan for the 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Performance Report, the Annual Governance Statement, and the Governance Compliance Statement
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and the Pension Fund

3. The Code of Audit Practice sets out in detail the respective responsibilities of the auditor and the Pension Fund. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

The Pension Fund's responsibilities

6. The Pension Fund is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

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

Adding Value

8. We aim to add value by: tailoring audit work to the circumstances of the Pension Fund and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Pension Fund Committee & Pension Board; and by recommending and encouraging good practice. In so doing, we will help the Pension Fund promote improved standards of governance, better management and decision-making, and more effective use of resources.

Annual accounts

Introduction

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

10. The appointed auditor is required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. The team will focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

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

Materiality levels for the 2023/24 audit

13. We assess materiality at different levels. The materiality values for the Pension Fund are set out in Exhibit 1.

Exhibit 1
2023/24 Materiality levels for the Pension Fund

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Pension Fund's operations. For the year ended 31 March 2024, we have set our materiality at 1.5% of gross expenditure investment assets based on the audited financial statements for 2022/23.	£13 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance	£9.1 million

materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£650 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

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

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. Significant risks of material misstatement are those which have the greatest impact on our planned audit procedures. Exhibit 2 summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2
2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to	Owing to the nature of this risk, assurances from management are not applicable in this instance.	• Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
override controls that otherwise appear to be operating effectively.		• Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.
2. Estimation applied to level 3 investments The Pension Fund has a significant portfolio of level 3 investments (£344.4 million as at 31 March 2023) where valuations involve the application of a variety of estimates in determining appropriate valuations. This subjectivity gives rise to a significant risk of material misstatement in the financial statements.	Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed professional, accounting and industry codes and guidelines.	• Critically assess the Pension Fund's arrangements for arriving at the valuation of level 3 investments, including the use of experts in undertaking the valuation. • Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Review the relevant investment managers' controls reports for qualifications or exceptions that may affect the audit risk. • Review the arrangements in place at the Pension Fund to assess investment managers' governance arrangements. • Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.

Source: Audit Scotland

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

18. We have rebutted this risk for the Pension Fund because:

- The split of responsibilities amongst the Pension Fund, its fund managers, its custodian, and the bank provide a clear separation of duties reducing the risks relating to investment income.
- We have considered opportunity and incentive for fraud in income recognition, including understanding of entity level controls, and consider the risk of fraud to be low.
- Having considered the value and the nature of contribution income, which is paid over from employers, we have concluded there is not a significant risk in this area.

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

20. We have rebutted this risk for the Pension Fund because:

- Management fees are reported transparently.
- We have considered opportunity and incentive for fraud in expenditure recognition, including understanding of entity level controls, and consider the risk of fraud to be low.
- There is no incentive for the Pension Fund to manipulate the amount of pension benefits paid (which is the Pension Fund's main expenditure stream) and we have concluded there is not a significant risk in this area.

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

Other areas of audit focus

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

23. The area of specific audit focus is the disclosure of the actuarial valuation of the Pension Fund liabilities. This involves a complex actuarial estimate. The Pension Fund engage an independent actuary to support the estimation. The valuation is based on a range of financial and demographic estimations about the future, based on a well-established methodology. The subjectivity around these estimates gives rise to a presentational risk of material misstatement.

Wider Scope and Best Value

Introduction

24. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

25. In summary, the four wider scope areas are:

- **Financial management** – This means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.

- **Financial sustainability** – We will look ahead to consider whether the body is planning effectively to continue to deliver services. We will also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).

- **Vision, leadership, and governance** – We conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Pension Fund. We also consider the effectiveness of the governance arrangements to support delivery.

- **Use of resources to improve outcomes** – We will consider how the Pension Fund demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

26. We have not identified any significant risks in the wider scope areas.

27. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of any challenges identified in prior years.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

29. We will provide:

- an Independent Auditor's Report to the Pension Fund and the Accounts Commission setting out our opinions on the annual accounts
- the Pension Fund and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

30. Exhibit 3 outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

31. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 3
2023/24 Audit outputs

Audit Output	Target date	Pension Fund Committee & Pension Fund Board Date
Annual Audit Plan	31 March 2024	4 March 2024
Independent Auditor's Report	30 September 2024	19 September 2024
Annual Audit Report	30 September 2024	19 September 2024

Source: Audit Scotland

32. All Annual Audit Plans and the outputs detailed in Exhibit 3, and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

33. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at Exhibit 4 that has been discussed with management.

34. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4
2023/24 Proposed annual accounts timetable

Key stage	Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Section 95 Officer	9 September 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	12 September 2024
Agreement of audited and unsigned annual accounts	12 September 2024
Issue of Annual Audit Report to those charged with governance.	12 September 2024
Signed Independent Auditor's Report	19 September 2024

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of the Pension Fund and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £26,370 as set out in Exhibit 5.

Exhibit 5
2023/24 Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	45,630
Pooled costs	1,660
Sectoral Cap Adjustment	-20,920
Total 2023/24 fee	**26,370**

Source: Audit Scotland

36. In setting the fee for 2023/24, we have assumed that the Pension Fund has effective governance arrangements and will prepare a comprehensive and accurate annual report and set of accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

37. It is the responsibility of the Pension Fund to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

38. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

39. As the appointed auditor of the Pension Fund, I am independent of the Pension Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

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

41. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of the Pension Fund.

Audit Quality

42. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the Audit Scotland website.

43. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

44. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

45. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

46. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Scottish Borders Council Pension Fund

Annual Audit Plan 2023/24 - DRAFT

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or
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ESG Impact Assessment 2023 Annual Report

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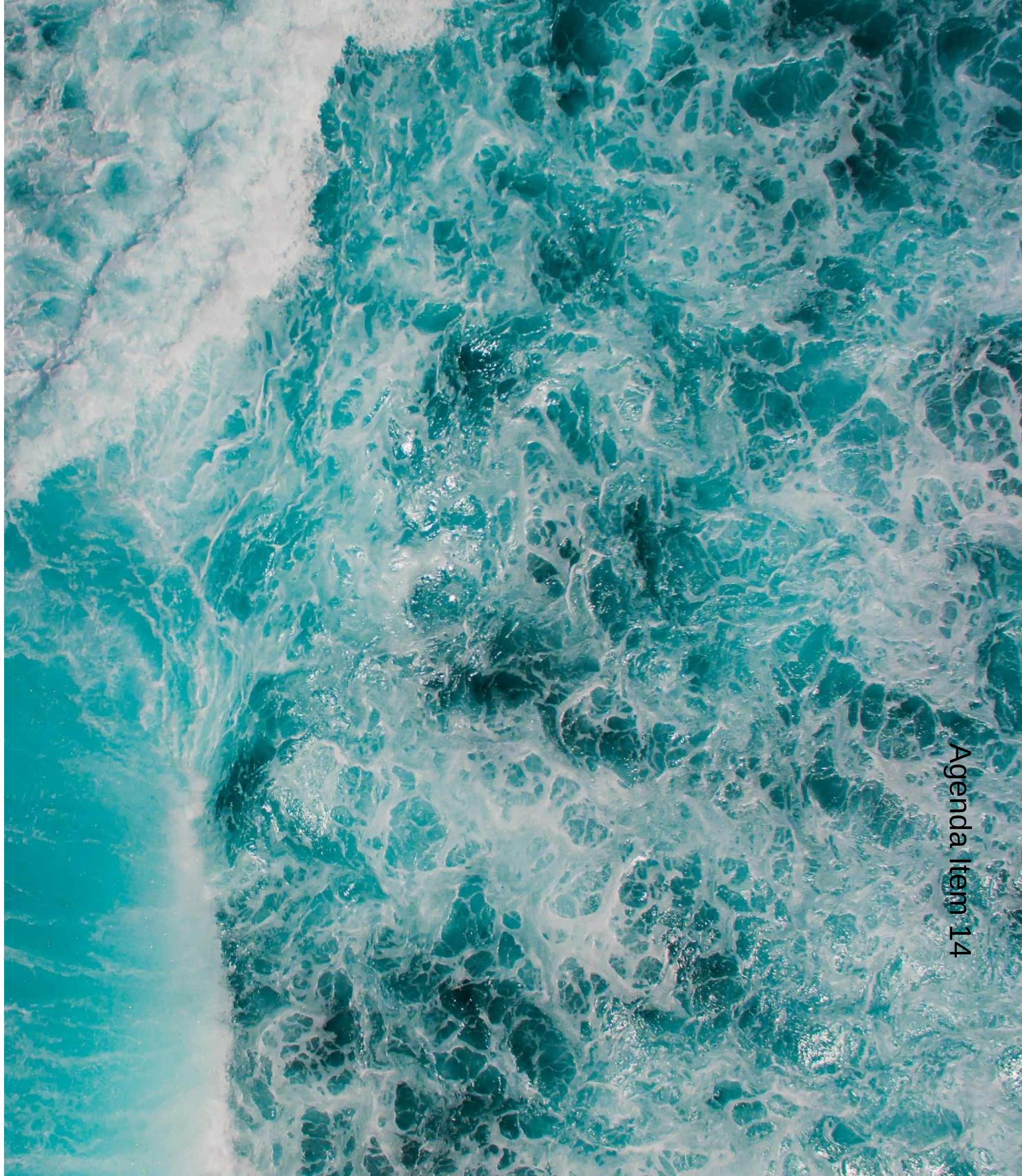
Scottish Borders Council Pension Fund

February 2024



Agenda Item 14

Contents

Introduction

Introduction

The purpose of this paper is to evaluate the Fund’s investment managers’ approach to integrating ESG factors against the Committee’s agreed ESG Policy, as well as suggest actions that the investment managers should take in order to drive ESG improvements in their approach an position of the wider industry. These actions have been raised as part of our ESG monitoring process.

As the Committee has delegated the day-to-day management of the Fund’s investments to the fund managers, it is important that the they understand how they consider financial material considerations, such as ESG and climate-related risks and opportunities.

Every year, we raise the bar in terms of our expectations of managers in this space, taking into account any ESG and climate-related landscape developments, from regulatory guidance to best practice approaches.

This report provides an **ESG score** and **Climate score** for each manager and, where managers fall short, identifies **actions** to engage with the investment managers on.

This year’s report also provides a comparison to the 2022 annual review.

ESG Assessment Process

To develop the **ESG Score**, we have assessed the fund managers' ESG capabilities against each of the five following criteria.

1. **Investment Approach** – There is a clear approach/framework for integrating ESG factors.

2. **Risk Management** – ESG factors are integrated holistically in the manager's risk management framework.

3. **Voting & Engagement** – There is evidence of ongoing engagement with companies on ESG issues to help initiate change.

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4. **Reporting** – The manager provides meaningful and regular reporting on ESG issues, including voting and engagement activities.

5. **Collaboration** – There is evidence of engagement with other stakeholders and market participants to encourage best practice on various ESG issues.

We also separately develop a **Climate Score**, which assesses the managers for their climate-related capabilities across these five pillars.

ESG Manager Review Framework

Score > 4	**Meets additional impact criteria:** The fund qualifies as a specialist ESG/climate fund with specific environmental or social impact objectives being equal in importance to more traditional financial objectives such as risk and return targets. The fund will need to fulfil additional impact evaluation criteria.
Score > 3	**Meets additional sustainability criteria:** The fund qualifies as a specialist ESG/climate fund with ESG and/or climate-focused objectives being equal in importance to more traditional financial objectives such as risk and return targets. The fund will need to fulfil additional sustainability evaluation criteria.
Score = 2-3	**Meets traditional criteria:** The manager scores highly on our ESG and/or climate scorecard and is in line with best practice in terms of ESG and/or climate integration.
Score = 1-2	**Partially meets criteria:** The manager has scored strongly on some (but not all) of the ESG/climate assessed criteria and ESG and/or climate integration is on par with the majority of investors.
Score = 0-1	**Significantly fails to meet criteria:** The manager fails to meet most of the criteria on our ESG and/or climate scorecard and is significantly behind best practice in terms of ESG and/or climate integration.

Overview & Scores

Overview

Meets Additional Impact Criteria	Score = 4-5
Meets Additional Sustainable Criteria	Score = 3-4
Meets Traditional Criteria	Score= 2-3
Partially Meets Criteria	Score = 1-2
Significantly Fails to Meet Criteria	Score = 0-1

	2022	2023
ESG Score	**2.1**	**2.3**
Investment Approach	2.4	2.5
Risk Management	2.2	2.5
Stewardship	1.8	2.3
Reporting	1.7	1.5
Collaboration	2.8	2.8
Climate Score	**2.2**	**2.6**

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The Fund continues to **meet traditional ESG criteria on both ESG and Climate grounds** at an overall level, meaning that it has scored strongly on most of the ESG/climate assessed criteria and is in line with best practice in terms of ESG and climate integration.

The Fund continues to improve its scores across all five categories with the exception of Collaboration (which was already towards the top end of the category range) meaning good practice approaches in all of these areas. The Fund has also improved its score materially in **Stewardship** (formerly voting & engagement). The key reasons for these scores are set out below:

The climate score has improved more and is higher than the overall ESG score driven by market wide improvements we have seen in this area.

- **Investment Approach** – a number of the Fund's managers have ESG policies in place and have shown examples of buy/sell decisions based on ESG factors. Additionally, several of the Fund's managers have established a net zero commitment and interim decarbonisation targets.
- **Risk management** – a number of the Fund's managers have established dedicated ESG teams and utilise an ESG scorecard.
- **Stewardship** – a number of the Fund's managers have set both firm-wide and fund-level stewardship priorities.
- **Collaboration** – the majority of managers are party to several ESG and climate-related collaborative initiatives.

No individual manager achieved less than "partially meets criteria" at an overall level.

Note: Weights of the individual assessment criteria will vary across asset class.

Scores – Equity, and Alternatives

Meets Additional Impact Criteria	Score = 4-5
Meets Additional Sustainable Criteria	Score = 3-4
Meets Traditional Criteria	Score= 2-3
Partially Meets Criteria	Score = 1-2
Significantly Fails to Meet Criteria	Score = 0-1

↑ Category rating has improved

↓ Category rating has deteriorated

	ESG Score 2023	Investment Approach	Risk Management	Stewardship	Reporting	Collaboration	Climate Score 2023
Baillie Gifford UK Equity	2.4	2.4	2.6	2.7	1.7 ↓	2.5	2.1
Baillie Gifford Global Alpha Paris Aligned	2.6	3.3 ↑	2.6	2.7	1.7 ↓	2.5	3.6
Morgan Stanley Global Sustain Equity	2.4	2.2	3.0	2.3	1.8 ↓	2.8	2.5
LGIM Global Equity	3.2	3.6	2.7	3.5 ↑	2.3	3.5	4.6 ↑
LGT Alternatives	2.7 ↑	2.9	3.8 ↑	2.2 ↑	1.1 ↑	3.3 ↑	2.0
BlackRock Long Lease Property	2.0	2.0 ↓	2.6 ↑	1.5	1.3	2.8	2.1 ↑
IFM Infrastructure Equity	2.5	2.9	3.2 ↑	2.4 ↑	1.5	2.4	2.2 ↓
Nuveen Global Timberland Fund	3.1	3.6	3.3	3.6	1.9	2.4	3.3
Quinbrook Renewable Infrastructure Fund	3.4	4.2	3.2	2.1	3.9	3.5	4.4

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Scores – Credit

Meets Additional Impact Criteria Score = 4-5

Meets Additional Sustainable Criteria Score = 3-4

Meets Traditional Criteria Score= 2-3

Partially Meets Criteria Score = 1-2

Significantly Fails to Meet Criteria Score = 0-1

↑ Category rating has improved

↓ Category rating has deteriorated

	ESG Score 2023	Investment Approach	Risk Management	Stewardship	Reporting	Collaboration	Climate Score 2023
M&G – Alpha Opportunities Fund	2.3	2.3	2.4	2.8	1.4	3.0 ↓	2.3
M&G – UK Index-Linked Gilts Fund	1.4	0.8 ↓	0.7 ↓	2.0	0.4	2.8 ↓	1.4
Partners Group – Direct Lending	1.7	2.8	1.4	1.2	0.8 ↓	2.3	1.3
Permira – PCS III	1.3	1.3	1.7	0.7 ↓	1.0 ↓	2.0	0.9
Permira – PCS V	1.7	1.8	2.3 ↑	1.3	1.3	2.0	1.7
Macquarie – Senior and Junior Infrastructure Debt	1.2	1.0	1.1	1.6 ↑	0.3	2.5	1.1

ESG Manager Summaries

Meets Additional Impact Criteria Score = 4-5 | Meets Additional Sustainable Criteria Score = 3-4 | Meets Traditional Criteria Score= 2-3 | Partially Meets Criteria Score = 1-2 | Significantly Fails to Meet Criteria Score = 0-1

Category rating has improved | Category rating has deteriorated

Baillie Gifford – UK Equity Fund

Overview

ESG Score: 2.4 **Climate Score: 2.1**

Baillie Gifford ("BG") has established comprehensive firm-wide stewardship priorities. The Fund is committed to investing in line with the firm-wide commitment to the Net Zero Asset Managers initiative ("NZAMi").

The Fund has two dedicated ESG analysts who work collaboratively to integrate ESG into the Fund. At a firm level, Baillie Gifford have over 40 people within their ESG team, which work collaboratively.

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Proposed Actions

Investment Approach - Consider the use of fund-specific ESG objectives and an ESG scorecard

Stewardship – Consider running engagement through a centralised team.

Reporting – Consider the inclusion of wider ESG scoring in client reporting, as well as the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.

Assessment Criteria	Score	Overview
Investment Approach	2.4	– The Fund is managed in line with its commitment to meet the delivery of net zero emissions by 2050 or sooner. The Fund has committed to least 90% of the portfolio's direct holdings having a net zero pathway which aligns with a 1.5°C temperature rise by 2030. – BG are committed to managing the Fund in a way which complies with the United Nations Global Compact.
Risk Management	2.6	– The Fund is supported by two dedicated UK ESG analysts who works hand-in-hand with the UK Equity Portfolio Managers to ensure ESG is fully integrated in the Fund from the bottom up. – BG utilises a range of external ESG data sources to supplement their in-house analysis.
Stewardship	2.7	– BG has a list of stewardship principles which frame the way it interacts with portfolio firms. Interactions are carried out by both the investment and ESG teams. – BG can provide detailed examples of engagements with firms on a range of risks, including climate and social related issues.
Reporting	1.7 ↓	– BG's annual sustainability report is thorough; however, the manager does not report on detailed ESG metrics in quarterly reports on a fund level basis.
Collaboration	2.5	– BG is a member of several ESG related initiatives, including UNPRI, TCFD, IIGCC and the Net Zero Asset Managers Initiative.
Climate	2.1	– All the Fund's holdings are assessed on their alignment to net zero, with the highest emitting stocks being subject to further analysis using their Climate Transition Research Framework.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5	Meets Additional Sustainable Criteria Score = 3-4
Meets Traditional Criteria Score= 2-3	Partially Meets Criteria Score = 1-2
Significantly Fails to Meet Criteria Score = 0-1	

Baillie Gifford – Global Alpha Paris Aligned

↑ Category rating has improved ↓ Category rating has deteriorated

Overview

ESG Score: 2.6 **Climate Score:** 3.6

The Fund is a variation of the Baillie Gifford ('BG') Global Alpha strategy. The parent fund is adjusted in order to screen out carbon intensive companies from the portfolio.

The Fund has a commitment to lowering carbon intensity and this is assessed by having a lower greenhouse gas intensity than the MSCI ACWI EU Paris Aligned Requirements Index (which itself has an intensity 50% lower than the MSCI ACWI, with a 7% year-on-year decarbonisation pathway).

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Proposed Actions

Investment Approach - Consider the use of social / nature objectives within the investment process, as well as an ESG scorecard.

Reporting – Consider the inclusion of wider ESG scoring in client reporting, as well as the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.

Assessment Criteria	Score	Overview
Investment Approach	3.3 ↑	– The Fund utilises a four-stage process is applied to help navigate towards a lower carbon environment. This includes (1) excluding high emission companies; (2) a qualitative questionnaire; (3) assessing firms' strategies for achieving Net Zero; (4) maintaining a weighted average greenhouse gas intensity lower than the MSCI ACWI EU Paris Aligned Requirement Index.
Risk Management	2.6	– The Fund is supported by a dedicated ESG analyst who is responsible for ESG coordination and stewardship activities. – BG utilises a range of external ESG data sources to supplement their in-house analysis; this includes the use of platforms such as Bloomberg, Sustainalytics and MSCI.
Stewardship	2.7	– BG has a set of firmwide Stewardship principles which are used to engage with portfolio companies. – BG can provide detailed examples of engagements with firms on a range of risks, most notably covering climate and social related issues.
Reporting	1.7 ↓	– BG's annual sustainability report is thorough; however, the manager could provide more detailed and granular data as part of regular standard reporting.
Collaboration	2.5	– BG is a member of several ESG related initiatives, including UNPRI, TCFD, IIGCC and the Net Zero Asset Managers Initiative
Climate	3.6	– The Fund has a commitment to have greenhouse gas intensity which is 50% less than the MSCI ACWI, decarbonising year-on-year by 7%.

Note: View expressed by Isio are based solely on information provided by the investment managers.

	Meets Additional Impact Criteria Score = 4-5	Meets Additional Sustainable Criteria Score = 3-4	Meets Traditional Criteria Score= 2-3	Partially Meets Criteria Score = 1-2	Significantly Fails to Meet Criteria Score = 0-1

Morgan Stanley – Global Sustain Equity Fund

Category rating has improved

Category rating has deteriorated

Overview

ESG Score: 2.4 **Climate Score:** 2.5

While investment teams are ultimately responsible for defining their approach to ESG integration within their funds, Morgan Stanley continue to grow their dedicated Sustainability Team which provides support and training to enhance ESG integration.

The Fund targets a significantly lower greenhouse gas emissions intensity than that of the benchmark, as well as requiring a minimum of 20% of the portfolio be in sustainable investments.

Proposed Actions

Risk Management – Look to model the impact of physical risk on companies and work to improve coverage of GHG emissions.

Reporting – Look to produce a dedicated sustainability report for the Fund and consider having ESG metrics independently verified by a third party.

Climate - Morgan Stanley should consider setting a firm-level net-zero commitment with agreed interim decarbonisation targets.

Assessment Criteria	Score	Overview
Investment Approach	2.2	– The manager has firm-level and fund-level ESG policies, and has established specific ESG and climate related objectives, with a significant focus on lowering Greenhouse Gas emissions. – The Fund has a range of exclusions, including companies with links to fossil fuels, tobacco firms, brewers, energy firms, and controversial weapons manufacturers.
Risk Management	3.0	– The investment team makes use of its proprietary ESG scorecard to assess ESG risks and opportunities within the Fund; this team is responsible for defining the fund's approach to ESG considerations. The team is supported by a dedicated Sustainable Investment specialist who helps drive ESG integration in the strategy.
Stewardship	2.3	– Morgan Stanley have four company level engagement priorities and have, identified three fund-level stewardship priorities: planetary boundaries, people welfare, and trust and integrity. Over 2023, the manager launched phase two of their carbon transition engagement programme. – The investment team are responsible for all voting decisions but collaborate with the Sustainability Team and proxy research providers for additional support.
Reporting	1.8	– ESG metrics are reported in the Fund's quarterly "ESG Fact Card" and engagement and voting activities are bi-annually disclosed; however Morgan Stanley does not currently publish a dedicated sustainability report for the Fund. – The Fund reports on scope 1, 2 and 3 emissions; however, portfolio coverage is currently lower than what we would expect to see.
Collaboration	2.8	– Morgan Stanley increased their collaborative efforts over 2023 and worked with wider initiatives to complement their engagement activities for the Fund. – The manager is a signatory of a range of bodies, including: the 2020 UK Stewardship Code, and TCFD.
Climate	2.5	– The Fund currently has no forward looking ESG objectives; however, aims to achieve a significantly lower GHG emissions intensity than that of the benchmark.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5	Meets Additional Sustainable Criteria Score = 3-4	Meets Traditional Criteria Score= 2-3	Partially Meets Criteria Score = 1-2	Significantly Fails to Meet Criteria Score = 0-1

LGIM Future World Equity Fund

↑ Category rating has improved ↓ Category rating has deteriorated

Overview

ESG Score: 3.2 **Climate Score:** 4.6

LGIM continues to grow their dedicated and experienced ESG team that drive engagement with portfolio companies on key ESG issues. Within LGIM's Future World Index, a set of exclusions are applied, alongside enhancements based on the comprehensive evaluation of ESG factors.

Climate considerations are a key priority for the Fund, and LGIM are continually improving their capabilities in the space. In 2023, LGIM introduced Scope 3 and GHG emissions data in regular reporting for the Fund.

We view LGIM as being leaders in promoting ESG through collaboration with the broader industry and clients, specifically on climate-related topics.

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Proposed Actions

Stewardship – The manager should aim to increase the percentage of portfolio companies they engage with (currently 48%)

Reporting – LGIM should strive to have their ESG metrics and data independently verified to ensure accuracy of key metrics and data.

Assessment Criteria	Score	Overview
Investment Approach	3.6	– The Fund has clear forward looking ESG objectives and excludes companies that are violators of the UN Global Company and controversial weapons. – The Fund tilts towards to companies with favourable ESG credentials, as determined by LGIM's ESG scorecard. This allows the Fund to identify, engage and escalate key ESG issues.
Risk Management	2.7	– LGIM employ a team of 88 individuals that are dedicated to ESG. The team is spread across The Investment Stewardship Team and Responsible Investing Strategy Team, who collectively ensure robust ESG integration and adherence across the Firms' strategies. – LGIM model climate-related risks and opportunities across asset classes that are considered under three various climate scenarios.
Stewardship	3.5 ↑	– LGIM's stewardship activity is guided by their Global Stewardship themes. This is implemented at fund level through constant engagement with underlying portfolio companies and the wider industry.
Reporting	2.3	– Scope 1,2, and 3 metrics are provided in the Fund's regular reporting, which is completed on a quarterly basis. The Fund has >70% coverage of GHG emissions data.
Collaboration	3.5	– LGIM are currently members of 50+ initiatives and networks, covering climate change, net zero transition, health, diversity and inclusion and corporate governance around the world.
Climate	4.6 ↑	– LGIM can clearly demonstrate where engagement is undertaken to strengthen climate risk reduction in the Fund.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5	Meets Additional Sustainable Criteria Score = 3-4	Meets Traditional Criteria Score= 2-3	Partially Meets Criteria Score = 1-2	Significantly Fails to Meet Criteria Score = 0-1

Category rating has improved

Category rating has deteriorated

LGT – Crown Multi Alternatives Fund

Overview

ESG Score: 2.7 ↑ Climate Score: 2.0

LGT have made strides to improve overall ESG integration at a firm and fund level. Over 2023, LGT established ESG objectives for the Fund and have made improvements to their ESG tool to incorporate additional analysis within their due diligence process.

Stewardship and ESG integration is limited at a fund-level due to the nature of the Fund as it invests in private assets. LGT focus their ESG analysis on the Fund around disciplined due diligence on the underlying managers' integration of ESG into their investment processes.

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Proposed Actions

Stewardship – Consider setting explicit stewardship priorities at a Fund-level.

Reporting – Improve the level of coverage of emissions data within the Fund.

Reporting – Consider producing a dedicated sustainability or impact report for the Fund.

Assessment Criteria	Score	Overview
Investment Approach	2.9	– LGT have a firm-level net zero commitment and have set interim decarbonisation targets. – LGT continue to improve their approach to ESG integration, and over 2023 have set ESG objectives for the Fund, including climate, social and nature-related objectives.
Risk Management	3.8 ↑	– LGT regularly update their ESG tool which is used by the investment team during the due diligence process. Over 2023, LGT updated the tool to incorporate climate-related risk considerations. – At a firm-level, LGT have published an Equity, Diversity & Inclusion ("ED&I") policy and have incorporated ED&I improvement targets within their strategic 5-year plan.
Stewardship	2.2 ↑	– LGT have set climate action as an overall engagement topic for the firm, with climate action related issues triggering around 70% of all engagements with underlying managers. – Given its nature, stewardship within the Fund is limited, with LGT carrying out engagements with managers rather than with individual portfolio companies,
Reporting	1.1 ↑	– LGT have started to increase the scope of their reporting, however, the coverage of emissions data within the Fund remains below 50% of the total portfolio. – LGT do not currently produce a dedicated sustainability report for the Fund.
Collaboration	3.3 ↑	– LGT work collaboratively with other investors where engagement objectives are aligned and are actively engaging in four collaborative engagement initiatives. – LGT are a member of a number of collaborative bodies, and over 2023, became a member of the Nature Action 100 initiative.
Climate	2.0	– The Fund have climate-related exclusions which apply to the Fund and have developed climate scenario analysis modelling as part of their ESG tool updates.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5 | Meets Additional Sustainable Criteria Score = 3-4 | Meets Traditional Criteria Score= 2-3 | Partially Meets Criteria Score = 1-2 | Significantly Fails to Meet Criteria Score = 0-1

Category rating has improved | Category rating has deteriorated

BlackRock Long Lease Property Fund

Overview

ESG Score: 2.0 **Climate Score:** 2.1

BlackRock has a robust firm wide ESG process that is well integrated within its Real Assets platform. Each asset within the portfolio is reviewed from an ESG standpoint and is monitored throughout the lifecycle of an investment. Despite their limited control over properties, they expect to place a greater emphasis on engaging with tenants going forward.

BlackRock has committed to improving their ESG framework on an ongoing basis to identify the ESG risk and rewards associated with each underlying asset. BlackRock currently report on some ESG metrics for the Fund however are actively looking to improve their reporting once data quality is improved.

Proposed Actions

Stewardship - Report and monitor engagement effectiveness overtime

Reporting – Provide evidence of detailed ESG metrics within their regular reporting cycle.

Climate - To establish a firm level net zero target.

Assessment Criteria	Score	Overview
Investment Approach	2.0 ↓	– BlackRock have a well-integrated sustainable investment policy to ensure ESG considerations are incorporated across all stages of a property assets life cycle. – Isio's rating of BlackRock's investment approach has fallen from previous years due to a change in our methodology which reflects Isio's year-on-year increases in ESG standards and expectations.
Risk Management	2.6 ↑	– BlackRock's Risk and Quantitative Analysis (RQA) group and Sustainable Investment teamwork alongside one another to evaluate and manage ESG risks for each investment within the portfolio. – Regardless of whether a fund has a sustainable objective, if ESG risks are financially material the data is incorporated into firmwide risk adjustment processes.
Stewardship	1.5	– BlackRock carries out stewardship reporting at a firm level , engaging with 879 companies out of 2600 on multiple occasions, however, the fund is unable to report stewardship priories at a fund level, which have been set at a firm level, – The Fund currently takes the stance that it has limited control over properties and as such BlackRock cannot provide examples of Fund-level engagement.
Reporting	1.3	– As all properties within the fund are controlled by the tenant, BlackRock are unable to generate any Scope 1 and Scope 2 emissions. The fund is able to report Scope 3 greenhouse gas emissions. – BlackRock currently provide high-level ESG reports to investors with GRESB reports available on requests.
Collaboration	2.8	– BlackRock are ahead of their peers and have identified ESG collaboration as a priority. They are a member of several coalitions and shareholder groups such as UNPRI, GRESB, Net Zero Assets Managers Initiative and more.
Climate	2.1 ↑	– BlackRock pursues an environmental sustainability strategy that is focused on reducing GHG emissions and increasing the efficiency of BlackRock's operations, During 2022, BlackRock made enhancements to the measurement of GHG emissions from its operations by onboarding Watershed, an enterprise climate platform, to improve carbon footprint accuracy, understand emissions drivers, and track the impact of emission reductions against BlackRock's operational science-aligned emission reduction goals.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5

Meets Additional Sustainable Criteria Score = 3-4

Meets Traditional Criteria Score= 2-3

Partially Meets Criteria Score = 1-2

Significantly Fails to Meet Criteria Score = 0-1

Category rating has improved

Category rating has deteriorated

IFM Global Infrastructure Fund

Overview

ESG Score: 2.5 **Climate Score: 2.2**

IFM comprehensively integrate the firm's Responsible Investment Charter throughout the Fund's investment process and have a clear process for ESG integration through the investment process.

They have specifically included climate concerns throughout their assessment approach, with quantifiable metrics and targets at Fund level. GIF should complete its emission reduction plans at the asset level at the earliest opportunity to assess alignment with its net zero targets.

Reporting is now TCFD and SFDR aligned but there is potential for more detail in fund-level ESG metrics scoring and reporting, especially for social scoring.

Proposed Actions

Investment Approach - Develop an ESG scorecard approach to quantify ESG risks.

Stewardship - To make climate and social factors a stewardship priority

Risk Management- Improve climate scenario testing and impact on Fund value

Reporting – Continue to improve overall Fund level reporting on ESG metrics, particularly social metrics.

Assessment Criteria	Score	Overview
Investment Approach	2.9	– The Firm is focussed on ensuring new investments are aligned with the Fund's net zero by 2050 commitment. The Fund has set an interim target of a 2.02 million tonnes reduction in CO2 emissions by 2030. – The Infrastructure team integrates the Firm's RI policy in their due-diligence checklist, which is reviewed and updated on a regular basis,.
Risk Management	3.2 ↑	– IFM use external providers (such as Arup, ERM, 427 and Pollination.) to derive climate change research and feed it into the Funds investment process. – IFM continue to ensure that key areas of ESG risk such as climate change and modern slavery are embedded into their enterprise risk management (ERM) framework.
Stewardship	2.4 ↑	– IFM actively engages with management of portfolio companies, governments and stakeholders. They seek to identify projects and implement initiatives that build resilience to the impacts of climate change and create wider social and economic value.
Reporting	1.5	– IFM have published disclosures to comply with SFDR's level 1 requirements and more detailed and quantitative level 2 requirements are to come into effect in 2023. IFM also publish an inaugural TCFD framework-aligned report. – There still remains room for improvement on fund level reporting, particularly social metrics.
Collaboration	2.4	– IFM actively participate in collaborative initiatives including PCAF, IIGCC (including the PAII and NZIF) and modern slavery engagement with ASX100 companies. – In FY22 IFM collaborated with other private debt investors to develop an ESG Covenant Package, aiming to improve reporting of ESG and climate data
Climate	2.2 ↓	– IFM will not invest in any new assets that derive revenue from thermal coal (defined as greater than 20% revenue at time of investment). – In addition to the net zero by 2050 target, IFM have an interim reduction by 2030 target, which has increased to 2.02 million tonnes due to additions to the portfolio.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5

Meets Additional Sustainable Criteria Score = 3-4

Meets Traditional Criteria Score= 2-3

Partially Meets Criteria Score = 1-2

Significantly Fails to Meet Criteria Score = 0-1

Category rating has improved

Category rating has deteriorated

Nuveen – Global Timberland Fund

Overview

ESG Score: 3.1 Climate Score: 3.3

Nuveen has a firmwide Responsible Investment ("RI") policy which sets out their approach to ESG and supports stewardship efforts across their funds. They have a dedicated RI team who drives their RI programme and works collaboratively with the different fund management teams.

At a fund level, in line with its Global Sustainability Policy, the Global Timberland Fund encourages asset operators to comply with industry best practices for responsible forest management.

Proposed Actions

Risk Management – Consider the use of an ESG scorecard as part of the Fund's due diligence process and ongoing monitoring of investments.

Stewardship - Consider setting individual objectives or key performance indicators (KPIs) for the fund's asset operators.

Reporting – Finalise the production of their fund-specific Sustainability Report and ensure it demonstrates how the assets have made a positive environmental impact.

Collaboration - Nuveen should continue to progress its application for the UK Stewardship Code for 2024.

Assessment Criteria	Score	Overview
Investment Approach	3.6	– Nuveen have a firm-level ESG policy and at a fund level, have established ESG objectives for the Global Timberland Fund, as set out in the fund's Global Sustainability Policy. – Nuveen have a commitment to be net zero by 2040 and are working closely with their parent company to develop interim decarbonisation targets. Nuveen continue to follow industry best practices until firm-specific targets have been agreed.
Risk Management	3.3	– Nuveen have a dedicated RI team who administer the firm's RI programme and support the investment team in integrating ESG considerations within the portfolio. – The Fund utilises third party ESG data to assess climate risk and wider ESG risks as part of the due diligence process for prospective investments.
Stewardship	3.6	– At a fund level, Nuveen has adopted 4 key stewardship priorities which revolve around the responsible management of certified Timberland assets. – The manager works closely with its asset operators to establish long-term management plans that align with their stewardship priorities for the Fund..
Reporting	1.9	– Nuveen provide annual reporting on scope 1 and 2 emissions and have informed estimates on Scope 3 emissions. Data is verified internally and is subject to Nuveen's compliance review prior to publication. – The Fund will publish its first fund-specific sustainability report in 2024, following the publication of the annual firmwide report in June.
Collaboration	2.4	– Nuveen engage with a variety of groups to shape industry best practices and standards and are a signatory to a number of key organisations including the UN PRI. Nuveen are in the process of applying for the 2024 UK Stewardship Code.
Climate	3.3	– The Fund has climate adaptations in place which build on existing forest management strategies. – In line with industry best practice, the Fund contributes to climate change mitigation through its responsible forestry practices and environmental stewardship

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria	Meets Additional Sustainable Criteria	Meets Traditional Criteria	Partially Meets Criteria	Significantly Fails to Meet Criteria
Score = 4-5	Score = 3-4	Score= 2-3	Score = 1-2	Score = 0-1

Quinbrook – Renewable Infrastructure Fund ('RIF')

Category rating has improved

Category rating has deteriorated

Overview

ESG Score: 3.4 **Climate Score: 4.4**

Quinbrook's fundamental investment strategy is to build energy infrastructure and related businesses that support the transition to net zero. Quinbrook have a firmwide Responsible Investment and ESG policy which covers their approach to ESG and a Stewardship policy which supports their engagement with portfolio companies.

At a Fund level, RIF integrates ESG throughout the investment process. Each investment completed by the Fund supports the UK's net zero energy transition, providing solutions to ensure a more reliable and accessible carbon-free power supply for the UK.

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Proposed Actions

Investment Approach - Consider the use of an ESG scorecard as part of the Fund's due diligence process and ongoing monitoring of investments.

Risk Management – The manager could consider tracking and setting specific targets for Equality, Diversity and Inclusion ("ED&I") metrics.

Reporting – Provide reporting on ESG ratings for underlying portfolio companies within the Fund. Consider the use of a third party or impact/thematic specialist to verify reporting data.

Assessment Criteria	Score	Overview
Investment Approach	4.2	– The Fund focuses on investments that directly support the UK's "Net Zero" energy transition and provide solutions for decarbonisation and clean energy. – The Fund supports broader sustainability goals within its portfolio companies, aligned with protocols such as the UN Sustainable Development Goals ("UN SDG") and TCFD.
Risk Management	3.2	– Quinbrook has established a structured internal framework for identifying ESG risks, opportunities and UN SDG alignment during the due diligence of new investments and ongoing asset management. – All team members are expected to drive Impact within the RIF and are supported by Quinbrook's dedicated sustainable investment team who feed into the investment decision making.
Stewardship	2.1	– Quinbrook has a publicly available Stewardship policy which is reviewed at least every 2 years. As the sole or majority owner of invested assets, Quinbrook has strong levels of engagement and influence over portfolio companies within the RIF.
Reporting	3.9	– Quinbrook provides quarterly reporting on scope 1, 2 and 3 carbon emission data, along with broader ESG metrics. Data is verified internally in line with GHG Protocol. – A sustainability report is included within the RIF's quarterly report. A firm-wide Climate Opportunity and Impact report is also published annually.
Collaboration	3.5	– Quinbrook is a member or signatory to a number of key organisations such as the 2021 UK Stewardship Code and have published a Stewardship Outcomes report to provide greater transparency into their commitment to ESG-related issues. – Their UN PRI score in 2023 was 5 stars out of 5, achieving 100% in 2 of the 3 assessed categories and 98% in the other.
Climate	4.4	– Quinbrook has a firm-level net zero commitment covering all AUM, and 100% of investments in the RIF support the UK's net zero energy transition.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5
Meets Additional Sustainable Criteria Score = 3-4
Meets Traditional Criteria Score= 2-3
Partially Meets Criteria Score = 1-2
Significantly Fails to Meet Criteria Score = 0-1

Category rating has improved
Category rating has deteriorated

M&G Alpha Opportunities Fund

Overview

ESG Score: 2.3 **Climate Score:** 2.3

M&G boasts a robust company-wide ESG strategy, illustrating their competency in managing ESG risks within the Fund. However, the ESG reporting lags vs peers in the market as M&G do not produce detailed ESG metrics and tracking for the assets contained within the portfolio.

M&G have launched a 'sustainable' version of the fund with a greater focus on impact investments to cater for clients with stronger ESG objectives.

Proposed Actions

Investment Approach – Consider implementing a fund-level ESG policy.

Stewardship – Look to formalise stewardship priorities at the fund level and increase proportion of underlying portfolio assets that are engaged with.

Reporting – Continue to improve data coverage and reporting metrics.

Reporting – Disclose the ESG ratings for assets held in the Fund in quarterly reporting.

Assessment Criteria	Score	Overview
Investment Approach	2.3	– M&G have a comprehensive firm-level ESG policy which includes a firm-level net zero commitment for all M&G portfolios. They also have an ambition for all investments to have board gender equality by 2027. – There is no additional emphasis on ESG components at the fund level beyond the company policy.
Risk Management	2.4	– M&G utilises data from MSCI to inform ESG evaluations for the Fund, as they consider MSCI's coverage to be the most comprehensive among providers. – The Stewardship and Sustainability team at M&G serve as an essential ESG hub working with portfolio managers to ensure optimal sustainability outcomes for the Fund.
Stewardship	2.8	– Despite overall engagement as a proportion of the portfolio being modest, M&G have highlighted examples where engagement was employed to improve climate and social outcomes within the scope of the mandate.
Reporting	1.4	– M&G continue to lag vs peers in terms of ongoing ESG data reporting. In addition, M&G do not produce a dedicated sustainability impact report where ESG metrics are clearly outlined and illustrated through case studies.
Collaboration	3.0	– M&G are a signatory to the 2020 UK stewardship code and the NAZMI. The manager can clearly evidence engagements with the wider industry in line with the firm level ESG policy.
Climate	2.3	– The Fund is captured by M&G's firm-wide net-zero commitment by 2050, with agreed interim decarbonisation targets. – M&G report on scope 1, 2 and 3 emissions on an ad hoc basis.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5
Meets Additional Sustainable Criteria Score = 3-4
Meets Traditional Criteria Score= 2-3
Partially Meets Criteria Score = 1-2
Significantly Fails to Meet Criteria Score = 0-1

M&G Index-Linked Gilts ('ILG') Fund

Category rating has improved
Category rating has deteriorated

Overview

ESG Score: 1.4 **Climate Score:** 1.4

M&G showcase a comprehensive firm-wide ESG approach with a commitment to net-zero emissions across all portfolios by 2050, with a dedicated stewardship team also in place.

Isio continue to engage with M&G to support ESG improvements at a fund-level where possible. However, M&G have limited scope to integrate ESG into the Fund's investment process due its focus on index-linked gilt investments only.

Proposed Actions

Investment Approach – Once more widely available for index-linked gilts, M&G should look to include Green Gilts in the portfolio.

Risk Management – Look to establish a more formal ESG training programme for investment teams.

Stewardship – Provide examples of fund-level engagement with the UK government on ESG-related issues.

Reporting – Look to improve coverage of emissions data for the Fund

Assessment Criteria	Score	Overview
Investment Approach	0.8	– M&G have a comprehensive firm-wide ESG policy and net zero commitment in place, which covers this fund. – However, there is limited evidence of ESG enhancement at the fund level, as Green Gilt issuance, particularly in the index-linked bond space, remains low.
Risk Management	0.7	– M&G has a dedicated Sustainable Investment team and offers optional ESG training to all staff. – M&G have set ESG objectives and investment exclusions at the firm level, although there is limited scope to apply these at the fund level given the only applicable issuer is the UK government.
Stewardship	2.0	– M&G have explicit firm-wide climate and social stewardship priorities which are listed in their annual Stewardship Report, however, there is no evidence of how these are adopted by the Fund. – M&G were unable to provide any examples of engagement with the UK government on climate or social issues.
Reporting	0.4	– M&G can report on carbon emission and implied temperature rise data for the Fund and report in line with the Carbon Emission Template (CET). However, this currently does not require reporting of data on UK sovereigns, therefore the data coverage of the Fund is very low.
Collaboration	2.8	– M&G actively engage with several initiatives focused on ESG, e.g. NZAMI, TCFD, TNFD, Climate Action 100+ and the UK 2020 Stewardship code.
Climate	1.4	– The Fund is captured by M&G's firm-wide net-zero commitment by 2050, with agreed interim decarbonisation targets. – M&G report on scope 1 and 2 emissions on an ad hoc basis.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5
Meets Additional Sustainable Criteria Score = 3-4
Meets Traditional Criteria Score= 2-3
Partially Meets Criteria Score = 1-2
Significantly Fails to Meet Criteria Score = 0-1

Partners Group ('PG') – Private Credit

Category rating has improved
Category rating has deteriorated

Overview

ESG Score: 1.7 **Climate Score:** 1.3

PG continue to demonstrate a strong firm-wide approach to ESG and have strong ESG teams and practices.

They have a strong screening process in their investment approach, using industry recognised guidance, such as the TCFD and UN Global Impact. However, PG lag peers in reporting and therefore seen their score downgraded in this area.

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Proposed Actions

Risk Management – Review and update the ESG scorecard on an annual basis. Include climate and social risks within ESG assessments.

Stewardship - Provide examples of engagements where they have enhanced ESG specific factors within the mandate.

Reporting – Introduce ESG reporting in regular fund reporting, including ESG metrics.

Assessment Criteria	Score	Overview
Investment Approach	2.8	– PG have a firmwide ESG policy, which includes ESG targets focusing on climate change, diversity and inclusion and corporate governance, and have a firmwide net zero commitment covering all AUM. However, the private credit funds do not currently have fund-level ESG objectives. – ESG factors are integrated throughout the investment process with PG utilising an ESG scorecard as part of the due diligence process.
Risk Management	1.4	– PG have a dedicated ESG and Sustainability team, with the Board of Directors responsible for the firm's sustainability strategy. – However, PG do not explicitly capture climate, physical, nature or social risks in their ESG assessments, and cannot provide climate modelling.
Stewardship	1.2	– PG do not list explicit climate, social or biodiversity factors as stewardship policies, which lags peers. – PG have a central process for engaging with the underlying portfolio companies, however, they are not able to provide evidence of engagement in line with any stewardship priorities for each fund.
Reporting	0.8	– PG report on ESG metrics on an annual basis, however they do not currently report on their temperature pathway alignment or provide fund-level coverage of emissions data.
Collaboration	2.3	– PG collaborate regularly with other industry participants and are signatories to the UK Stewardship Code.
Climate	1.3	– The Fund does not have any climate specific objectives, but PG have a Climate Change Strategy and a commitment to Net Zero.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5

Meets Additional Sustainable Criteria Score = 3-4

Meets Traditional Criteria Score= 2-3

Partially Meets Criteria Score = 1-2

Significantly Fails to Meet Criteria Score = 0-1

Category rating has improved

Category rating has deteriorated

Permira – PCS III

Overview

ESG Score: 1.3 **Climate Score:** 0.9

Given this fund vintage is fully deployed, the scope for fund-level improvements is limited. Future improvements are therefore likely to focus on enhancing engagement and reporting capabilities.

Permira has a dedicated ESG team which supports engagement actions and aids training across the credit business. Permira have sought to improve data collection through primary data collection to feed into reporting quality, however these areas have been downgraded from last year due to the standards improving across newer vintages within the direct lending space.

Proposed Actions

Investment Approach - Set specific ESG objectives relating to areas such as climate, social and nature.

Voting & Engagement - Enhance tracking and monitoring of engagements.

Reporting – Improve reporting and the gathering of data on ESG characteristics of the portfolio.

Climate – Set a target to achieve Net Zero.

Assessment Criteria	Score	Overview
Investment Approach	1.3	– Permira have a firm-wide ESG policy but there are no explicit ESG-related objectives at the fund level. Unlike the latest vintage, these funds made little/no use of ESG ratchets given these are a recent development. – An ESG scorecard was used during the initial due diligence process and is used for ongoing monitoring.
Risk Management	1.7	– Permira has a dedicated ESG team and the ESG Lead has oversight over all ESG matters across the Permira's Credit funds. In addition, all Permira Credit employees receive regular training sessions on ESG integration. – However, Permira is unable to model the impact of physical risks or different climate change scenarios on the value of their funds.
Stewardship	0.7 ↓	– Permira request ESG data from issuers annually to assess them against ESG-related KPIs. However, evidence of meaningful engagement with a significant proportion of the portfolios is more limited.
Reporting	1.0 ↓	– Permira provide annual firm and fund-level ESG reports to update investors on ESG matters. While climate reporting is provided, Permira do not report on the individual ESG ratings of individual portfolio companies.
Collaboration	2.0	– Permira are signatories of several organisations including Principles for Responsible Investment and the ILPA ESG Data Convergence Initiative. However, Permira are not signatories to the UK 2020 UK Stewardship code.
Climate	0.9	– Permira are dedicated to setting Science-Based Targets at the firm level with a proposed target of a 70% reduction in scope 1 and 2 emissions by 2030. However, they currently do not have a Net Zero commitment.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5	Meets Additional Sustainable Criteria Score = 3-4	Meets Traditional Criteria Score= 2-3	Partially Meets Criteria Score = 1-2	Significantly Fails to Meet Criteria Score = 0-1

↑ Category rating has improved ↓ Category rating has deteriorated

Permira – PCS V

Overview

ESG Score: 1.7 **Climate Score:** 1.7

As an SFDR Article 8 rated fund, Permira have enhanced ESG integration in PCS V compared to their previous fund vintages. The main improvements related to this are an enhanced ESG scorecard used in the due diligence process and the use of ratchets to incentivise borrowers to meet ESG-related KPIs.

Permira has a dedicated ESG team which supports investment decisions and aids training across the credit business. Permira utilise an ESG scorecard in their due diligence process and enhanced their risk management by adding in additional parameters to assess environmental and societal impacts.

Proposed Actions

Investment Approach – Increase the use of ratchets across new deals made.

Stewardship – Enhance level of engagements and provide evidence of the impact of these.

Reporting – Improve fund-level reporting and the gathering of data on fund ESG characteristics.

Climate – Set a firmwide commitment to Net Zero.

Assessment Criteria	Score	Overview
Investment Approach	1.8	– Permira have a firm-wide ESG policy but there are no explicit ESG-related objectives at the fund level. However, PCS V does have an exclusion list which includes thermal coal mining and extraction of oil and gas. – Permira utilise ratchets to financially incentivise issuers to achieve ESG KPIs. However, these have only been enacted for a small portion of the portfolio.
Risk Management	2.3 ↑	– Permira has a dedicated ESG team and the ESG Lead has oversight over all ESG matters across Permira's credit funds. – Additional parameters have been implemented in PCS V to help assess the environmental and social impacts of a potential issuer. If significant ESG risks are identified as part of this, the opportunity is not progressed.
Stewardship	1.3	– Permira request ESG data from issuers annually to assess them against ESG-related KPIs. Evidence of engagement in line with key priorities is more prevalent in PCS V than older PCS vintages.
Reporting	1.3	– Permira provide annual firm and fund-level ESG reports to update investors on ESG matters, including climate reporting. Specifically for PCS V, data is verified by a third party.
Collaboration	2.0	– Permira are signatories of several organisations, including Principles for Responsible Investment and the ILPA ESG Data Convergence Initiative. However, Permira are not signatories to the UK 2020 UK Stewardship code.
Climate	1.7	– Permira are dedicated to setting Science-Based Targets at the firm level with a proposed target of a 70% reduction in scope 1 and 2 emissions by 2030. However, Permira currently does not have a Net Zero commitment.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Meets Additional Impact Criteria Score = 4-5	Meets Additional Sustainable Criteria Score = 3-4	Meets Traditional Criteria Score= 2-3	Partially Meets Criteria Score = 1-2	Significantly Fails to Meet Criteria Score = 0-1

Category rating has improved
Category rating has deteriorated

Macquarie – Senior / Junior Infrastructure Debt

Overview

ESG Score: 1.2 **Climate Score:** 1.1 ↑

Macquarie has made improvements to its implementation of ESG policies, stewardship and risk analysis at the firm level, however, this strategy lacks specific ESG objectives, reporting is both lacking in terms of detail and frequency.

Due to the limitation of publicly available data on carbon emissions, Macquarie has excluded its Private Credit strategies from its firm level net zero target.

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Proposed Actions

Investment Approach – Set up strategy specific ESG objectives.

Risk Management – Develop an ESG scorecard that can be used as part of asset due diligence.

Stewardship – Set up a central process and escalation policy for engagement of portfolio assets.

Reporting – Provide regular reporting (ideally quarterly) of ESG metrics at the strategy level and ESG ratings of individual portfolio assets.

Assessment Criteria	Score	Overview
Investment Approach	1.0	– At the firm level, Macquarie has an ESG policy and a commitment to net-zero by 2040, albeit this does not cover this strategy. – Macquarie does not utilise an ESG scorecard however, it uses tools such as RepRisk to screen for ESG risks during the due diligence process.
Risk Management	1.1	– Macquarie has a dedicated Sustainability Team (28 individuals). – There is insufficient evidence that ESG risks are captured during the investment due diligence process – evidenced by the lack of a scorecard.
Stewardship	1.6 ↑	– Macquarie has no central process for engaging with portfolio companies. – Macquarie are commended from a stewardship perspective mainly due to its activities carried out at a firm level. – This includes providing an annual Stewardship Report covering its firm-level ESG policies, engagement activities and outcomes.
Reporting	0.3	– Macquarie provides a firm-level annual Sustainability Report outlining its approach to sustainability including examples. – At a strategy level, carbon footprint data can be provided on an adhoc basis, however, no emissions or ESG metrics within regular reporting are available.
Collaboration	2.5	– Macquarie is part of industry working groups (e.g. GRESB) that promote sustainability issues, in addition to being a signatory to the 2020 UK Stewardship Code and UNPRI.
Climate	1.1 ↑	– Macquarie monitors climate factors in its portfolios however, this strategy does not have formal climate objectives, nor are regular TCFD metrics available.

Note: View expressed by Isio are based solely on information provided by the investment managers.

Proposed Actions

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Proposed Actions (1)

✓ Action completed
Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Baillie Gifford – UK Equity	Investment Approach	Action in progress	Consider the use of fund-specific ESG objectives and an ESG scorecard. *BG manage Scottish Border's UK Equity Portfolio in line with the following ESG commitments: by 2030, at least 90% of the portfolio's direct holdings will have a net zero pathway which aligns with a 1.5°C temperature rise. However, they did not provide details of any other specific ESG objectives or mention the implementation of an ESG scorecard for the Fund.*
	Risk Management	Action in progress	Consider the use of ESG scoring of assets held within the portfolio *BG utilise their own 4 question Climate Transition Framework to carry out climate analysis on the highest emitting stocks within the portfolio, but did not provide details on the implementation of an ESG scorecard.* Consider the introduction of climate scenario analysis *BG include climate-related risks and opportunities facing the Fund under different climates, over the short to long term as part of their annual TCFD report.*
	Stewardship	Action in progress	Consider running engagement through a centralised team *There is a dedicated ESG Services team but it is currently unclear how this team manages the overall engagements.*
	Reporting	Action in progress	Consider the inclusion of wider ESG metrics in client quarterly reporting. *There is an overview of key ESG developments included within the quarterly reports at present, however, wider ESG metrics have yet to be incorporated. BG should consider the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.*

Proposed Actions (2)

✓ Action completed
🕐 Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Baillie Gifford – Global Alpha Paris Aligned	Investment Approach	✗	Consider introducing social objectives and using an ESG scorecard
	Risk Management	🕐	Consider the use of ESG scoring of assets held within the portfolio *BG utilise their own 4 question Climate Transition Framework to carry out climate analysis on the highest emitting stocks within the portfolio, but did not provide details on the implementation of an ESG scorecard.* Consider the introduction of climate scenario analysis *BG include climate-related risks and opportunities facing the Fund under different climates, over the short to long term as part of their annual TCFD report.*
	Stewardship	✗	Consider running engagement through a centralised team *There is a dedicated ESG Services team but it is currently unclear how this team manages the overall engagements.*
	Reporting	✗	Consider the inclusion of wider ESG metrics in client quarterly reporting *There is an overview of key ESG developments included within the quarterly reports at present, however, wider ESG metrics have yet to be incorporated. BG should consider the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.*

Proposed Actions (3)

- ✓ Action completed
- 🕐 Action in progress
- ✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Morgan Stanley – Global Sustain Equity Fund	Investment Approach	🕐	Morgan Stanley should consider implementing a firm-level net zero target. *The firm is carbon neutral, and the parent company, Morgan Stanley, has a target of being net zero by 2050; however, Morgan Stanley Investment Management does not yet have a specific commitment.*
	Stewardship	✓	Morgan Stanley should consider having engagement managed by a central team. *The Global Stewardship team co-ordinates stewardship and engagement activities, working closely with the investment teams.*
	Reporting	🕐	Morgan Stanley should consider tracking social metrics as part of their ESG regular reporting. *While these are provided as part of ad hoc reporting, they are not yet available as part of regular reporting.*
	Climate	✗	Morgan Stanley should consider aligning with a temperature pathway.

Proposed Actions (4)

✓	Action completed
🕐	Action in progress
✗	Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
LGIM – Future World Equity	Risk management	✓	LGIM have considered mandating ESG training across its investment divisions, by providing training for investment professionals regarding the development of sustainability and governance changes.
		✓	LGIM is now producing Scope 3 emissions data for the fund.
	Stewardship	✗	The manager should aim to increase the percentage of portfolio companies they engage with (currently 48%)
	Reporting	✗	LGIM should considered incorporating social metrics outside of the typical ICSWG band.
		✗	LGIM should strive to have their ESG metrics and data independently verified to ensure accuracy of key metrics and data.

Proposed Actions (5)

✓ Action completed
◷ Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
LGT – Crown Multi Alternatives	Stewardship	✗	LGT could consider setting explicit stewardship priorities at a Fund-level.
	Reporting	◷	The level of coverage of emissions data within the Fund could be improved. *LGT are currently considering this and which data to show.*
		✗	LGT could consider producing a dedicated sustainability or impact report for the Fund.
BlackRock – Long Lease Property	Reporting	◷	Provide evidence they are providing detailed ESG metrics within their regular reporting cycle. *BlackRock continue to provide limited ESG metrics in Q3 2023 – GHG emissions only*
	Stewardship	◷	Report and monitor engagement effectiveness overtime. *BlackRock are working on providing more data in 2024. Quarterly reports now include carbon data.*
	Climate	✗	To establish a firm level net zero target.

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Proposed Actions (6)

✓ Action completed
Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
IFM – Global Infrastructure Fund	Investment Approach	✗	Develop ESG scorecard approach to quantify ESG risks at asset level. *The Fund has not developed a scorecard to report on quantifiable ESG risks.*
	Risk Management	In progress	Improve climate scenario testing and impact on Fund value. *IFM provide carbon emissions data as specified by the Partnership for Carbon Accounting Financials (PCAF) but could continue to improve the reported carbon metrics for the Fund.*
	Reporting	In progress	Continue to improve Fund level reporting on ESG metrics, particularly social metrics *Social areas of ESG risk are embedded into ERM framework. However, further action needs to be taken so that the Fund is reporting on social metrics.*
	Stewardship	✗	To make climate and social factors a stewardship priority

Proposed Actions (7)

✓ Action completed
Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Nuveen – Global Timberland Fund	Risk Management	✗	Nuveen should consider the use of an ESG scorecard as part of the Fund's due diligence process and ongoing monitoring of investments.
	Stewardship	✗	Consider setting individual objectives or key performance indicators (KPIs) for the fund's asset operators.
	Reporting	In progress	Finalise the production of their fund-specific Sustainability Report and ensure it demonstrates how the assets have made a positive environmental impact. *This is in the pipeline following the publication of the annual firmwide report in June.*
	Collaboration	In progress	Nuveen should continue to progress its application for the UK Stewardship Code for 2024. *This is in progress.*
Quinbrook – Renewable Infrastructure Fund	Investment Approach	In progress	Quinbrook could consider the use of an ESG scorecard as part of the Fund's due diligence process and ongoing monitoring of investments. *Quinbrook have confirmed that this is being updated and intended to be rolled out over Q1 2024.*
	Risk Management	✗	The manager could consider setting Equality, Diversity and Inclusion ("ED&I") metrics and targets and measure improvements against these.
	Reporting	✗	Quinbrook could provide reporting on ESG ratings for underlying portfolio companies within the Fund.
		✗	Quinbrook could consider using a third party or impact/thematic specialist to verify their reporting data.

Proposed Actions (8)

✓ Action completed
🕓 Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
M&G – Alpha Opportunities Fund	Investment Approach	✗	Consider implementing a fund level ESG policy.
	Stewardship	✗	Look to quantify engagements on stewardship priorities at a fund level
	Reporting	🕓	M&G should continue to improve reporting metrics and in particular focus on social and engagement reporting, in addition to engaging with issuers to improve data quality within the portfolio.
		✗	M&G should report on the ESG rating / scores for assets held in the Fund.
	Climate	✗	Consider reporting fund level carbon footprint in regular reporting.
M&G – UK Index-Linked Gilts	Investment Approach	✗	Once more widely available for index-linked gilts, M&G should look to include Green Gilts in the portfolio.
	Risk Management	✗	M&G could consider establishing a more formal ESG training programme for investment teams.
	Stewardship	✗	M&G should provide examples of Fund-level engagement with the UK government on ESG related issues.
	Reporting	🕓	M&G have started reporting emissions data for the Fund but should look to improve the proportion of the Fund being covered in the data. *This is in progress*

Proposed Actions (9)

✓ Action completed
🕒 Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Partners Group – Private Credit	Investment Approach	🕒	The Fund has set ESG-objectives through sustainability-linked loans but does not have an over-arching or quantifiable target.
		✗	Set clear and quantifiable Fund-level ESG targets.
		✗	Include specific social, climate and natural-related objectives at a Fund-level.
	Risk Management	✗	Review and update the ESG scorecard on an annual basis. Include climate and social risks within their ESG assessments.
		✗	Include climate and social risks within their ESG assessments.
	Reporting	🕒	Begin reporting on temperature pathway alignment and emissions data at a Fund-level.
Permira – Direct Lending PCS	Investment Approach	✗	Set more specific ESG objectives relating to areas such as climate, social and nature.
	Reporting	✗	Improve reporting on ESG characteristics including areas which are lacking in monitoring such as biodiversity. Permira should also consider increasing the frequency and regularity of reporting.
	Stewardship	✗	Enhance the monitoring and documentation of interactions by offering additional examples/case studies that demonstrate Permira's capabilities in stewardship.
	Climate	✗	Set a target timeframe and create a plan of action to achieving Net Zero carbon emissions

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Proposed Actions (10)

✓ Action completed
🕐 Action in progress
✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Macquarie – Infrastructure Debt	Investment Approach	✗	Set up fund specific ESG objectives
	Risk Management	✗	Develop an ESG scorecard that can be used as part of due diligence.
	Stewardship	🕐	Set up a central process and escalation policy for engagement of portfolio assets. *In progress.*
		🕐	Provide better evidence of engagement in line with stewardship priorities *In progress.*
	Reporting	✗	Provide evidence of regular reporting of ESG metrics at the strategy level, including monitoring and outcomes of stewardship activity
		✗	Provide ESG ratings of individual portfolio assets.

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Summary & Next Steps

Summary and Next Steps

Summary

- The Fund's investment mandates have retained their meets traditional criteria or at a minimum partially meets our criteria on an overall basis, with the credit and private market mandates continuing to lag the scores of the Fund's equity and alternative mandates. This is not unexpected given the nature of these markets where ESG integration is more difficult to achieve due to a variety of factors.
- While Isio's ESG scoring system has become more robust since last year - "raising the bar" - it should be noted that Amber (i.e. 'partially meets criteria', scoring between 1-2) is a good outcome and requires strong integration of ESG risks and considerations, while Green (i.e. 'meets criteria', scoring above 2) reflects best practice in the market and above the average industry peers. From this perspective we believe the Fund remains in a strong position from an ESG point of view and ahead of other similarly placed LGPS Funds.
- We note both the ESG and climate scores have improved since the 2022 review despite the stricter criteria driven by the newly incepted mandates.
- While at an overall level all mandates satisfy requirements, there are individual areas within various mandates which could potentially be improved, although we acknowledge that in certain structures (for example closed-ended funds or fund-of funds) some changes can be more challenging to make than others, but we have identified areas of improvement for all funds. In particular, the majority of the Fund's managers have underperformed with regards to their reporting on ESG metrics.
- The Fund continues to achieve an above satisfactory score on climate grounds and has seen an improvement to its overall score in this area since the previous assessment. We expect to see further improvements in climate scores going forward, as managers continue to place greater emphasis on climate issues, and data becomes more widely available and increasingly reliable (particularly in private markets).

Next steps

- We suggest that Isio engage with the investment managers on behalf of the Fund regarding the key actions identified as part of our ESG assessment, with progress again reported at next year's assessment.
- The Committee can use this Impact Assessment as evidence of the Fund's stewardship activity for the year, in adherence to the UK Stewardship Code (2020). This can be included in the Fund's stewardship submission report. The output can also contribute to the analysis required for TCFD compliance.

The Fund's investment mandates all continue to satisfy ESG requirements at a high level.

We have noted a number of "best practice" managers and additional engagement points for each manager in order to continue to drive ESG improvements going forward.

Appendices

A1: ESG Assessment Criteria – Further Detail (1)

	Further Detail on ESG Assessment Criteria
Investment Approach/ Framework	• The fund's ESG **approach and objectives** are linked to the firm-wide ESG objectives. • The portfolio management team can talk about **key ESG priority areas** for portfolio holdings and sectors. • ESG considerations are clearly **integrated** into the manager's investment decision making process and ongoing investment analysis.
Risk Management	• Each manager should have a **well resourced ESG team** separate from the portfolio management team who drive ESG policy-making • Firm-wide ESG policies are translated into a fund-level risk management approach. An ESG **scorecard** to provide a quantitative ESG risk assessment. • The portfolio management team can evidence that ESG risks are material to the **investment process** and that an investment is not made if ESG risk is thought to be too high. • The manager has appropriate policies in place to quantify **climate change risks** and promote **equality and diversity**.

A1: ESG Assessment Criteria – Further Detail (2)

	Further Detail on ESG Assessment Criteria
Voting & Engagement	• The fund's voting & engagement activities are **consistent with the Firm-level** stewardship policies. • Stewardship activities are undertaken by a **central stewardship team** leveraging capital across the business. • The fund's portfolio companies are aware of the manager's **key ESG focus areas**. • The fund can evidence that its engagement priorities have been **effective**.
Reporting & Monitoring	• The manager's ESG and stewardship policies are **publicly available** and are readily accessible. • **Stewardship activity is reported** in regular quarterly reporting. • **ESG metrics** e.g. carbon intensity is incorporated into regular quarterly reporting.
Collaboration	• The manager is a **signatory** to key organisations e.g. UN PRI. • The manager engages with others in the **investment community** on ESG issues e.g. regulators. • The manager **collaborates** with other investment managers on ESG issues.

A2: Disclaimers

Performance, Opinions, and Estimated Liabilities

- This report sets out the past performance of various asset classes and fund managers. It should be noted that past performance is not a guide to the future.
- Our opinions (and comparison vs criteria) of the investment managers stated in this report are based on Isio's research and are not a guarantee of future performance. These are valid at the time of this report but may change over time.
- Our opinions of investment products are based on information provided by the investment management firms and other sources. This report does not imply any guarantee as to the accuracy of that information and Isio cannot be held responsible for any inaccuracies therein. The opinions contained in this report do not constitute any guarantees as to the future stability of investment managers which may have an effect on the performance of funds.
- Funds that make use of derivatives are exposed to additional forms of risk and can result in losses greater than the amount of invested capital.
- The estimated liabilities (where quoted) have been "rolled forward" from the last actuarial valuation and/or funding update, by taking current bond yields and inflation expectations into account. The methodology underlying the actuarial assumptions (e.g. discount-rate premium, mortality, real salary growth etc.) is assumed to remain constant for this estimate. Due to the approximate nature of the calculations, the Fund's actual experience and changes in future valuation assumptions may mean that the liabilities and funding position calculated at the next actuarial valuation (or funding update) could be significantly different from the quoted estimate.

Addressee and Isio Relationships

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This report has been prepared for the sole benefit of the Scottish Borders Council.

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PENSION ADMINSTRATION STRATEGY

Report by Director People Performance and Change

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

4 March 2024

1 PURPOSE AND SUMMARY

1.1 **This report proposes the revised Pension Administration Strategy for the Scottish Borders Council Pension Fund.**

1.2 The Pension Fund is required by the Local Government Pension Scheme (Scotland) Regulations 2018 to have an up-to-date Pension Administration Strategy.

1.3 **Appendix 1** contains the revised Pension Administration Strategy which has a number of amendments made to the previously approved version, the main change is the introduction of a new contacts form to allow the Fund to maintain an up to date list of details for each of the Employers. Other changes are in the departmental names and post titles for officers and reference to the new Pensions Regulator Single Code of Practice.

2 RECOMMENDATIONS

2.1 **It is recommended that the Pension Fund Committee approves the Pension Administration Strategy.**

3 BACKGROUND

3.1 Regulation 57 of the Local Government Pension Scheme (Scotland) Regulations 2018 advises that an administering authority should maintain its Pension Administration Strategy and keeps this under review following material changes in policies.

3.2 The review of the Pension Administration Strategy was highlighted as an area for improvement within the Governance review.

4 PENSIONS ADMINISTRATION STRATEGY

4.1 **Appendix 1** contains the updated Pensions Administration Strategy (PAS).

4.2 The changes made within the PAS are to reflect the recent changes to the corporate structure within Scottish Borders Council with changes made to the Officers titles. There has been a change made to reflect the introduction of the Pensions Regulator Single Code of Practice. The updates were made in the following sections: -

- Section 1.1 – reference to the Pensions Regulator's Single Code of Practice
- Section 3.3 – Officer title and Department names updated
- Section 4.4 – updated text on the purpose of the annual Employer Liaison Meeting

4.3 The most substantial change within the PAS is the introduction of a new contract form for all Fund Employers to complete, this can be found at Appendix D within the attached document. This will allow the Fund to ensure that they have up to date contact details for all Fund Employers for each of the following area's of interest: -

- Primary pension liaison and communications
- Bulk data submission and queries of Year End
- Payroll/HR
- Estimate requests
- Policies and decisions
- FRS102 accounts
- IDRP complaint and disputes procedure

Employers will also be asked to provide details of the Occupational Health Advisor that they are using.

5 IMPLICATIONS

5.1 **Financial**
There are no costs attached to any of the recommendations contained in this report.

5.2 **Risk and Mitigations**

This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks regarding the administration of the Pension Fund have been identified and are included in the risk register.

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 2018. 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 Director (Finance & Procurement), the Director (Corporate Governance), the Chief Officer Audit and Risk, the Clerk to the Council and Corporate Communications and any comments received will need to be incorporated into the final report.

Approved by

Name Clair Hepburn Director People Performance and Change

Author(s)

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

Background Papers:
Previous Minute Reference: 14 December 2021

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

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

SCOTTISH BORDERS COUNCIL PENSION FUND

PENSION ADMINISTRATION STRATEGY

HR Shared Services
Chief Executives Department
Version 2024 2.0 DRAFT
Approved: Joint Pension Fund Committee and Pension Board 4 March 2024

1. Introduction

1.1 Scottish Borders Council administers the Local Government Pension Scheme (LGPS) on behalf of Employers participating in the Scheme through Scottish Borders Council Pension Fund, see Appendix A. The administration of the Scheme is governed by statutory regulations:

- The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended);
- The Local Government Pension Scheme (Transitional Protections & Savings) (Scotland) Regulations 2014 (as amended);
- The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 (as amended).

In discharging their roles and responsibilities under the above Regulations, the Fund and employers are also required to manage the Scheme in accordance with the Pension Regulator's Single Code of Practice and to comply with any relevant legislation, such as:

- The Pensions Act 1995 and consequential amendments
- The Occupational and Personal Pensions Schemes (Disclosure of Information) Regulations 2013
- The Equality Act 2010
- The Freedom of information Act 2000
- The Finance Act 2004
- The Public Service Pensions Act 2013
- The Pension Scheme Act 2015;

and take appropriate cognisance of any regulatory guidance or Code of Practice and issued by:

- The Pensions Regulator
- Scottish Public Pensions Agency
- Scottish Government
- HMRC

1.2 Scottish Borders Council, as an Administering Authority, is committed to providing a high quality pension service to both members and Employers and ensuring members receive their correct pension benefit entitlement. These aims are best achieved where the Fund and Employers work in partnership and are clear about their respective roles and responsibilities. The Fund's role includes investing contributions from members and Employers, maintaining member records and calculating members benefits based on information supplied by Employers. The quality of service provided to members is therefore dependent on both parties meeting high standards of accuracy and timeliness of information supplied.

1.3 This document sets out the roles and responsibilities of both the Fund and Employer. It also specifies the level of services the parties will provide to each other and the performance measures used to evaluate them.

2. Pension Administration Strategy Statement

2.1 The strategy statement has been produced in consultation with Employers and was approved by the Joint Pension Fund Committee and Pension Board on 4 March 2024. The strategy will be kept under review and revised where appropriate. Changes will be subject to consultation with Employers. The strategy will be issued to all participating Employers.

2.2 References to the Fund should be regarded as meaning Scottish Borders Council as Administering Authority of the Local Government Pension Scheme.

2.3 In agreeing to this strategy, all parties commit to the following principals:

- Achieving a high quality pension service to employees
- Continually developing and improving efficient working arrangements
- Striving to exceed the Fund's service standards
- Reporting annually on performance
- Keeping the Pension Administration Strategy under review.

3. Administration and Management of the Fund

3.1 This is shared over two Services within the People, Performance & Change and Finance & Procurement.

3.2 **Administration**

The pension benefit policy oversight and day-to-day administration for the Fund is managed by the HR Shared Services Team within People, Performance & Change.

3.3 **Management**

The Council's Director of Finance and Procurement is the Officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.

They are responsible for:

- the financial accounting of the Fund,
- the preparation of the Pension Fund Annual Report, and
- being the principal advisor on investment management to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

The day-to-day management of the investment activities of the Fund is managed by the Pensions Investments Section within Finance and Procurement.

4. Roles and Responsibilities

4.1 The duties, responsibilities and discretions of Employer's are listed in Appendix B, and the Fund's duties, responsibilities and discretions are listed in Appendix C.

4.2 Responsibility for the review of the Pension Administration Strategy will fall to HR Shared Services on behalf of the Fund. However, all Employers will be consulted on changes to service standards prior to seeking approval at the Joint Pension Fund Committee and Pension Board.

4.3 The Joint Pension Fund Committee and Pension Board oversee the management of the Scottish Borders Council Pension Fund (the Fund). The Scheduled and Active Admitted Bodies are represented as members of the Pension Board.

4.4 To improve communication with all Scheduled and Active Admitted Bodies the Fund have Employer Liaison Meeting, with meetings held once a year. The meetings will be held in February or March to coincide with preparations for the year end and provide the opportunity for information to be conveyed with regard to any potential changes for the coming year and reporting requirements for the year end, including requirements for reports from the Fund Actuary.

5. Service Standards

5.1 Service standards expected from the Employer

Required information about members will generally be provided on the Fund's forms, authorised by an appropriate signatory. The following are the agreed standards at which the information detailed below will be provided:

- When a new employee joins the Scheme, the Employer will notify the Fund **within 20 working** days of commencing pension scheme deductions.

- The Employer will notify any member's change in pensionable circumstances **within 20 working days** of the change.

- Where a member is leaving the scheme with a right to immediate payment of retirement benefits, the Employer will, provide the Fund with all of the necessary information and certificates required **at least 20 working days before** the member's last day of service.

- Where a member leaves the Scheme and does not have a right to immediate payment of retirement benefits, the Employer will provide the Fund with all the necessary information to enable them to process the member as a leaver as soon as possible after notification by the member and **no later than 20 working days after** the member's last day of service.

- When a member dies in service the Employer will provide the Fund with all of the necessary information and certificates to enable them to make payment of any death grant and dependants' benefits due as soon as possible but no later than **10 working days** of the death of the member.

- The Employer will respond to queries raised by the Fund, with the exception of those resulting from the annual year end routines, **within 10 working days** of receipt.

- The Employer will pay employee contributions to the Fund, along with the Employer contributions certified in the latest actuarial valuation, **by the 19th of the next month** following deduction. Interest will be charged for late payment of contributions in accordance with regulations.

- The Employer will provide the Fund with year-end information to 31st March in an approved format by the 30th April each year, including a statement (SUP5) reconciling the amounts paid during the year with the totals on the year end return. Any queries arising from the year-end information will be answered **within 20 working days** of receipt.

- The Employer will notify the Fund of any changes in the personnel details provided in Appendix D.

5.2 Service standards Employers can expect from the Fund

The Fund will endeavour to provide the information below within the agreed timescales shown. A reduced timescale may be agreed in exceptional circumstances at an Employer's request.

- Where all required information is provided, the Fund will provide the Employer with ad-hoc estimates of benefits **within 10 working days** of the receipt of the request. Where more than 20 individual estimates are required, the Employer must consult with the Fund to reach an agreed timescale. Multiple requests relating to an individual member may be restricted.

- The Fund will respond to a pension-related query raised by the Employer **within 10 working days** of receipt.

- Benefit statements, leaflets and other correspondence will generally be issued directly to members' home addresses, where available. The Fund will advise Employers of the general content and planned issue date of such material in advance.

- The Fund will issue benefit statements through Member Self Service by **end of August** on an annual basis.

- The Fund will process ongoing monthly payments to pensioners by the 15th of the month or earlier when the 15th falls on a non-banking day.

- Employers have responsibility for ensuring the accurate provision of information to their members. The Fund is not responsible for checking the accuracy of any information provided by the Employer. However, the Fund will inform the Employer of any discrepancies between information provided by the Employer and information already held.

- As the body administering the scheme on behalf of the Employer, the Fund will consult with the Employer on major issues affecting their participation in the LGPS and keep it up to date with relevant information through:

  - Website – www.scottishborderscouncilpensionfund.org
  - Employer bulletins
  - Employer events
  - Consultative panel meetings

- The Fund will provide training, guidance and support to staff who have pension related duties as required by the Employer.

6. Performance measurement and reporting

6.1 The Fund will monitor, measure and report on both the Fund's and Employers' compliance with the agreed service standards and will share that report annually with Employers. These and other performance measures to be reported are detailed in Appendix E.

6.2 Where information collected for reporting purposes reveals issues with meeting the standards, the Fund will consult and work with the relevant Employers to improve the level of compliance and performance by providing support, guidance or training as considered necessary.

6.3 The Fund will carry out its duties and responsibilities to members in accordance with its service standards. It will also monitor, measure and report on its performance against those standards and its performance targets.

7. Costs

7.1 The costs of administration, including actuarial fees for routine work, are charged directly to the Fund. These costs are taken into account in assessing Employers' contribution rates.

7.2 Where additional services (actuarial or other) are required by, or result from the actions of the Employer and costs are incurred by the Fund, the Employer will be liable for the costs involved. Where appropriate, an estimate of these costs will be provided and the Employer's agreement obtained before proceeding to instruct the service provider.

8. Penalties

8.1 It is hoped that through commitment to the principles of this statement (see 2.3 and 5.2), any non-compliance issues arising would be addressed promptly and there would be no need to resort to any punitive action. However, for completeness the following actions are possible:

- In the event of a failure to meet its requirements, the Fund will be penalised in accordance with The Occupational Pensions Schemes (Disclosure of Information) Regulations.
- The Fund may appeal to Scottish Ministers against a decision, or failure to make a decision, under scheme regulations by an Employer.
- Persistent failure to comply with contribution payment requirements will result in the Fund informing the Pensions Regulator, as required of Scheme Administrators by the Pensions Act 1995.
- Where the Employer fails to comply with the scheme duties etc., including the failure to make payment of contributions due, the fund reserves the right to notify the member(s) involved and to notify all members employed by the Employer in the event of serious or persistent failure.
- If as a result of an Employer's poor performance, additional and disproportionate resources are deployed by the Fund, the cost of such additional resource may be re-charged to the Employer in accordance with the powers available under scheme regulations. Written notice will be provided of the reasons for re-charge, the basis of calculation of the amount, and the relevant part of this strategy which, in the Fund's opinion, has been contravened.
- Where any orders or instruction issued by The Pensions Regulator or Pensions Ombudsmen requires financial compensation or a fine to be paid from the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the Employer, the sum concerned will be recharged to the Employer.

Appendix A – Scheduled and Admitted Bodies

Scheduled Bodies

- Borders College
- Scottish Borders Council

Admitted Bodies

Active Admitted Bodies

- Amey Community Limited
- BC Consultants
- Live Borders (formerly Borders Sport and Leisure Trust)
- Jedburgh Leisure Facilities Trust
- Scottish Borders Housing Association
- CGI
- South of Scotland Enterprise

Admitted bodies with Deferred or Retired Members only

- Berwickshire Housing Association
- Heriot Watt (former Scottish College of Textiles)
- Project ’80 Council Burnfoot
- Red Cross Housing Association
- Scottish Borders Careers
- Stable Life (formerly GYP)
- Lothian and Borders Community Justice Authority
- SB Cares LLP
- SB Supports LLP

Appendix B – The Role and Responsibilities of the Employer

1. Main duties under scheme regulations

- To decide those employees eligible to become members of the Scheme. If eligible, a new employee must be treated as a member of the Scheme unless they elect otherwise.

- To supply timely and accurate information to the Fund regarding new members, leavers and material changes in employment required for pension administration purposes.

- To determine whether members are employed in a full time, part time or variable time capacity. For part time, to determine the proportion of comparable full time hours.

- To determine an employee's pay (or fees) for the purposes of calculating pension contributions and to determine final pay for the purposes of calculating benefits due from the Scheme.

- To determine an employee's annual contribution rate on the basis of the person's pensionable pay having regard to guidance issued by the Scottish Ministers. To collect, pay over and account for the deduction of the correct rate of pension contributions payable by both the employee and the Employer.

- To notify, in writing, every person whose rights or liabilities are affected by a 'first instance decision' made by the Employer under the 2018 Regulations (see Regulation 70 of the Local Government Pension Scheme (Scotland) Regulations).

- To appoint a person designated to receive appeals from employees on 'first instance decisions' under the 2018 Regulations

- To accompany any statement issued to an employee relating to any decision made about the scheme, with a notice drawing the employee's attention to their right of appeal under the LGPS. However, it should be noted that the Fund will normally issue, on behalf of the Employer, a Statutory notice detailing membership details, including such a notice when a member joins the Fund or where there is a change in a member's pension records.

- To notify the Fund of any employee's election to pay Additional Voluntary Contributions, to deduct from the member's pay the specified amount and to pay over those amounts to the specified AVC provider. To notify the Fund of any subsequent election to vary or cease paying AVC contributions and to ensure that final payments are made to the provider before a member's retirement.

- To notify the Fund of a material reduction in the member's pay, (or a restriction in the rate by which it may be increased), where the reduction or restriction arose otherwise than by virtue of the member's own volition.

- To use an independent Medical Officer qualified in Occupational Health Medicine, (who has been approved by the Fund), in determining ill-health retirement and provide the Fund with a relevant certificate where appropriate.

- To determine a member's entitlement to benefit on cessation of scheme membership, employment or on a member's application for early release of benefits or flexible retirement and provide early retirement request to the Fund as and when appropriate.

2. Responsibilities

In addition to the duties above, the Employer's responsibilities are summarised as follows:

- To provide prospective members with basic information about the Scheme using, where appropriate, material provided by the Fund.

- To maintain employment records for each scheme member, for the purpose of determining membership and entitlement to pension benefits.

- To ensure all relevant information is provided for new members, leavers and changes to pay and service records for pension purposes. Data provided should comply with Data Protection legislation and secure transfer methods must be adopted.

- To provide additional information as required for actuarial valuation, year end processing, data-matching or communication purposes. The specification for this will be provided by the Fund and may, after consultation, be modified from time to time.

- To pay monthly contributions due to the Fund, using agreed payment method.

- To ensure those not joining the scheme are fully aware of the benefits given up and that equalities principles are met.

- To make payment to the Fund, by lump sum and within prescribed time limits, any amounts arising as a result of the Employer's decision to increase total membership and/or increase annual pension under the 2018 Regulations.

- To decide whether to award additional compensatory years under the Discretionary Regulations. At the request of the Employer, the Fund will calculate and pay the benefits arising as a result of the Employer awarding additional compensatory years along with the main scheme benefits, and the Employer will reimburse the Fund for all such amounts paid.

- To advise members awarded additional compensatory years that the payment of the award will be subject to restriction should they take up further employment with an Employer participating in the LGPS.

- To pay the Fund, by lump sum payment and within prescribed timescales, any strain costs arising from a decision made by the Employer to award early payment of benefits.

- To ensure the Fund is informed about, and Government guidance is followed in respect of, any transfer of members in respect of an outsourcing of service arrangement, and any subsequent changes to that arrangement which would impact on those members.

- To inform the Fund of any planned changes to their pension provision for employees, including whether the scheme is open to new employees, bulk transfers of employment or any redundancy exercises as soon as possible.

- To provide details of officers or representatives who are to receive Employer communications issued by the Fund and keep these up to date as necessary.

- To provide details of officers or representatives who are authorised to sign Fund forms and to ensure all forms submitted to the Fund have been signed by an authorised signatory.

3. Discretions

The Employer is obliged to make, and keep under review, policies on the discretions available under the regulations. These policies must be contained and published in a policy statement. A copy of that statement, and any subsequent amendment to it, must be provided to the Fund. The current statement must also be made available to any scheme member upon request.

Guidance on establishing policies required is available from the Fund on request.

Appendix C – The Role and Responsibilities of the Fund

1. Main duties under scheme regulations

- To maintain the Scottish Borders Council Pension Fund.
- To invest pension contributions received and account for and manage the Fund's assets.
- To set up and maintain a record for each member which contains all the necessary information for the production of an accurate benefit calculation.
- To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
- To notify each member of their decisions regarding the counting of service or additional pension.
- To calculate and pay the appropriate benefits, based on the member's record, and the termination and pay details provided by the Employer when an employee ceases employment.
- To calculate and process transfers of members pension rights inwards and outwards.
- To supply members with a Membership Certificate on commencing membership, or on an increase in membership following an inwards transfer of pension rights.
- To issue a Certificate of Protection of Pension Benefit if requested to do so by an Employer within 12 months of a material reduction in a member's pay, (or a restriction in the rate by which it may be increased), where the reduction or restriction arose otherwise than by virtue of the member's own volition. Where such a certificate is issued, to keep a record of the member's pay for the period commencing 3 years before the effective date of the certificate and ending 10 years after the effective date of the certificate.
- To supply survivor beneficiaries with notification of their entitlements including the method of calculation.
- To appoint a suitable person for the purposes of the scheme's internal dispute resolution procedure.
- To increase pensions annually in accordance with the provisions of Pensions Increase Acts and Orders.
- To produce and issue annual pension forecasts to members via the Member Self Service online portal.
- To arrange for the triennial actuarial valuation of the Fund and send copies of the resulting report to Employers by the first anniversary of the valuation date.

2. Responsibilities

In addition, the responsibilities of the Fund in administering the Scheme are as follows:

- To appoint an Actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.
- To appoint an Additional Voluntary Contributions provider.

- To comply with any orders or instructions issued by The Pensions Regulator or the Pensions Ombudsman. Where the order or instruction requires financial compensation or a fine to be paid from the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the Employer, the sum concerned shall be recharged to the Employer (see 7.1 above).

- To issue forms, newsletters, booklets and such other materials as are necessary in the administration of the Scheme, for members and use by Employers. Ensuring that the requirements of the Occupational Pension Scheme (Disclosure of Information) Regulations 1996 are met.

- To provide accurate, timely data to the Fund actuary for the purposes of the triennial actuarial valuation of the Fund and for Employer accounting reports (e.g. FRS17/IAS19).

- Where appropriate, to pay benefits based on additional service awarded by an Employer in accordance with the provisions of the Discretionary Regulations.

- To provide assistance to Employers in regard to the pension implications of outsourcing services and to deal with any related bulk transfers of pension rights.

- To comply with HMRC reporting requirements regarding pension benefits.

- To ensure that steps are taken at all times to pay benefits to appropriate beneficiaries only and to reduce the possibility of fraud.

- To ensure compliance with Data Protection legislation.

3. Discretions

The Fund has published policies on discretions afforded by the scheme regulations and related regulations. The policy statement has been supplied to Employers and is available from the Fund's website. Changes to that statement may be published from time to time and revised versions provided to Employers.

Appendix D – Employer Contact Details

As a scheme employer, it is your responsibility to provide contact details for pension liaison, and to ensure this information is always kept up to date. Please see The Administration Strategy document for details.

For formal situations, recognising who is submitting data or requesting information, for managing complaints, member disputes, invoicing, and other ad hoc enquiries other contacts may be necessary to ensure the smooth running and transmission of decisions.

The information you provide here enables Scottish Borders Council Pension Fund to assist you in meeting your statutory obligations as a Scheme Employer in this fund.

The contact details, including the work email of the individuals you name, are held solely for pension administration and stored in accordance with the privacy statement, which is on the website http://www.scottishborderscouncilpensionfund.org/

It is your responsibility to ensure anyone named on this form, including those to receive regular updates of LGPS topics and administration, invitations to employer training events and latest newsletters knows and consents to their inclusion to the contact list.

You are welcome to nominate additional recipients.

It is your responsibility to keep this information up to date. You can send in separate forms.

Employer Information

Official registered name (as registered at Companies House):
Trading name:
Website:
Registered address:
Post Code
Telephone Number:
E-Mail address:

Contact details for MD / CEO / FD to receive formal communications:

Name	
Job Title	
Telephone Number	
Email	
Postal address if different from above	

Nominate your main contacts and the areas for which they have responsibility in day to day pension administration For any employer outsourced role, e.g. payroll or HR, please nominate a contact. Remember the primary responsibility within LGPS for administration will rest with the Scheme Employer.	Primary Pension liaison and communications contact	Bulk data submission / queries end of year	Payroll/ HR Contact	Estimate requests	Policies and decisions	FRS 102 accounts contact	IDRP complaint and disputes procedure
Name Job title Telephone Number Email	☐	☐	☐	☐	☐	☐	☐
Name Job title Telephone number Email	☐	☐	☐	☐	☐	☐	☐
Name Job title Telephone number Email	☐	☐	☐	☐	☐	☐	☐

Send in further sheets for additional contacts.

In addition to the formal and day to day contacts, the Scottish Borders Council Pension Fund must authorise an IRMP (Independent Registered Medical Practitioner), qualified in occupational health medicine, checking the qualifications, before an employer can use the medical opinion required for ill health retirement.

Please supply details here and advise the fund when you change Occupational Health Advisor.

Name			
Practice address			
Telephone number			
Email			
GMC registration			
Approved by Pension Services Manager	**Signed:**		**Date:**

Contacts form completed by:

Name	
Signed	
Date	

Return to:
Pensions Team
Scottish Borders Council Pension Fund
HR Shared Services
Council Headquarters
Newtown St Boswells
Melrose
TD6 0SA
pensions@scotborders.gov.uk

Appendix E – Performance Measures

EMPLOYER PERFORMANCE MEASURES

The following will be the standard followed for reporting performance measures on an annual basis.

Service Standards

Standard – target completion 90%	Volume	%age Met	Average Time
New starts notification – within 20 working days			
Changes notified – within 20 working days			
Retirement info – at least 20 working days before			
Early leaver notification – within 20 working days			
Death in service notification – within 10 working days			
Query responses – within 10 working days			
Year-end queries – within 20 working days			

Contribution payments

Latest 12 months	Target Date	Date received
April		
May		
June		
July		
August		
September		
October		
November		
December		
January		
February		
March		

ADMINISTERING AUTHORITY PERFORMANCE MEASURES

Service Standards

Standard	Volume	%age Met
Transfer In Estimates supplied – within 20 working days		
Transfer Out Estimates supplied – within 20 working days		
Other Estimates supplied – within 10 working days		
Query responses – within 10 working days		

Other measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	
Benefit Statements Issued	31 August	

Key Administration Tasks – latest period

Task	Total received	Target	% Completed in target
New entrants			
Early leavers			
Retirements			
Deaths in service			
Changes			
Estimates			
Pay all Pensioners on 15th of the month or prior working day when 15th is a non-banking day		100%	

Member Self Service Statistics – latest period

Task	Total Active	Target	% Completed in target
Active Members		100%	
Deferred Members		100%	
Benefit calculations run			

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2012 1.0	Creation of Pension Administration Strategy	27 April 2012	Ian Angus
2012 1.1	Changes following review by Anthea Green, Team Leader, HRSS	30 April 2012	Ian Angus
2012 1.2	Changes based on comments from David Robertson, Chief Financial Officer	1 May 2012	Ian Angus
2012 1.3	Changes based on comments from Lynn Mirley, Treasury & Capital Manager	10 May 2012	Ian Angus
2012 1.4	Changes based on comments from Ian Wilkie, Head of Legal & Democratic Services	31 May 2012	Ian Angus
2012 1.5	Changes following Pension Fund Sub-Committee 13 June 2012	5 July 2012	Ian Angus
2015 1.6	Amendments for 2014 regulations and Pension Board in place from 1 April 2015	23 July 2015	Ian Angus
2018 1.7	Amendments for 2018 regulations and name changes for Services	22 August 2018	Anthea Green
2020 1.8	Update Admitted Bodies, Regulations listed, Fund Website	2 September 2020	Ian Angus
2021 1.9	Update to Department names and inclusion of Member Self Service and Payroll payments	19 November 2021	Ian Angus
2024 2.0	Update to TPR Single Code of Practice Update to Department names Update to wording in 4.4 New Contacts Form added	9 February 2024	Ian Angus

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

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

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Integrated Impact Assessment (IIA)

Stage 1 Scoping and Assessing for Relevance

Section 1 Details of the Proposal

A. Title of Proposal:	Pension Administration Strategy
B. What is it?	A new Policy/Strategy/Practice ☐ A revised Policy/Strategy/Practice X
C. Description of the proposal: (Set out a clear understanding of the purpose of the proposal being developed or reviewed (what are the aims, objectives and intended outcomes, including the context within which it will operate)	Pension Fund Communication Policy review, which forms part of good governance requirements under the Local Government Pension Scheme (Scotland) Regulations 2018
D. Service Area: **Department:**	Scottish Borders Council Pension Fund People, Performance and Change
E. Lead Officer: **(**Name and job title)	Ian Angus, HR Shared Services Manager
F. Other Officers/Partners involved: (List names, job titles and organisations)	
G. Date(s) IIA completed:	9th February 2024

Section 2 Will there be any impacts as a result of the relationship between this proposal and other policies?

~~**Yes**~~ **/ No** *(please delete as applicable)*
If yes, - please state here:

Section 3 Legislative Requirements

3.1 Relevance to the Equality Duty:

Do you believe your proposal has any relevance under the Equality Act 2010?
(If you believe that your proposal may have some relevance – however small please indicate yes. If there is no effect, please enter "No" and go to Section 3.2.)

Equality Duty	**Reasoning:**
A. Elimination of discrimination (both direct & indirect), victimisation and harassment. *(Will the proposal discriminate? Or help eliminate discrimination?)*	No, given the subject matter of this assessment, it is not relevant to Equality duty.
B. Promotion of equality of opportunity? *(Will your proposal help or hinder the Council with this)*	No, given the subject matter of this assessment, it is not relevant to Equality duty.
C. Foster good relations? *(Will your proposal help to foster or encourage good relations between those who have different equality characteristics?)*	No, given the subject matter of this assessment, it is not relevant to Equality duty.

3.2 Which groups of people do you think will be or potentially could be, impacted by the implementation of this proposal? (You should consider employees, clients, customers / service users, and any other relevant groups)				
Please tick below as appropriate, outlining any potential impacts on the undernoted equality groups this proposal may have and how you know this.				
	Impact			**Please explain the potential impacts and how you know this**
	No Impact	**Positive Impact**	**Negative Impact**	
Age Older or younger people or a specific age grouping	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018
Disability e.g. Effects on people with mental, physical, sensory impairment, learning disability, visible/invisible, progressive or recurring	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018
Gender Reassignment/ Gender Identity anybody whose gender identity or gender expression is different to the sex assigned to them at birth	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018
Marriage or Civil Partnership people who are married or in a civil partnership	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018
Pregnancy and Maternity (refers to the period after the birth, and is linked to **maternity** leave in the employment context. In the non-work context, **protection** against **maternity** discrimination is for 26 weeks after giving birth),	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018

Race Groups: including colour, nationality, ethnic origins, including minorities (e.g. gypsy travellers, refugees, migrants and asylum seekers)	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018
Religion or Belief: different beliefs, customs (including atheists and those with no aligned belief)	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018
Sex women and men (girls and boys)	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018
Sexual Orientation, e.g. Lesbian, Gay, Bisexual, Heterosexual	X			No impact or relevance. This is a routine good governance report required Local Government Pension Scheme (Scotland) Regulations 2018

3.3 Fairer Scotland Duty

This duty places a legal responsibility on Scottish Borders Council (SBC) to actively consider (give due regard) to how we can reduce inequalities of outcome caused by socioeconomic disadvantage when making strategic decisions.

The duty is set at a strategic level - these are the key, high level decisions that SBC will take. This would normally include strategy documents, decisions about setting priorities, allocating resources and commissioning services.

Is the proposal strategic?

~~Yes~~ / No ***(please delete as applicable)***

If No go to Section 4

If yes, please indicate any potential impact on the undernoted groups this proposal may have and how you know this:				
	Impact			**State here how you know this**
	No Impact	**Positive Impact**	**Negative Impact**	
Low and/or No Wealth – enough money to meet basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future.				
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure and hobbies				
Area Deprivation – where you live (e.g. rural areas), where you work (e.g. accessibility of transport)				
Socio-economic Background – social class i.e. parents' education, employment and income				
Looked after and accommodated children and young people				
Carers paid and unpaid including family members				
Homelessness				
Addictions and substance use				
Those involved within the criminal justice system				

3.4 Armed Forces Covenant Duty ***(Education and Housing/ Homelessness proposals only)***	
This duty places a legal responsibility on Scottish Borders Council (SBC) to actively consider (give due regard) to the three matters listed below in Education and Housing/ Homelessness matters. This relates to current and former armed forces personnel (regular or reserve) and their families. **Is the Armed Forces Covenant Duty applicable?** **~~Yes~~/ No** If "Yes", please complete below	
Covenant Duty	**How this has been considered and any specific provision made:**
The unique obligations of, and sacrifices made by, the armed forces;	
The principle that it is desirable to remove disadvantages arising for Service people from membership, or former membership, of the armed forces;	
The principle that special provision for Service people may be justified by the effects on such people of membership, or former membership, of the armed forces.	

Section 4 Full Integrated Impact Assessment Required

Select No if you have answered "No" to all of Sections 3.1 – 3.3.

~~Yes /~~ No *(please delete as applicable)*

If yes, please proceed to Stage 2 and complete a full Integrated Impact Assessment

If a full impact assessment is not required briefly explain why there are no effects and provide justification for the decision.

Report is a regular governance report required to ensure good governance of the Pension Fund. All members of the Fund have equal status under the regulations followed.

Signed by Lead Officer:	**Ian Angus**
Designation:	**HR Shared Services Manager**
Date:	**9th February 2024**

Counter Signature Director:	**Clair Hepburn**
Date:	**19/02/2024**

GOVERNANCE ACTION PLAN

Report by Director of Finance & Procurement

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

04 March 2024

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 Governance Action Plan to 31 December 2023.**

1.2 The Governance Action Plan encompasses recommendations from the independently produced Governance Review report and the Fund's Stewardship Code report December 2022. It provides a high-level plan for how these will be progressed and implemented 2023/24.

1.3 It was agreed that 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.

2 RECOMMENDATIONS

It is recommended that the Committee reviews and notes the completed actions in the 2023 Governance Action Plan, up to December 2023 (Appendix 1).

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 12th 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 at the time, 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 The Governance Action Plan has been created in Project Management format to monitor and progress actions accordingly by 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 ACTION PLAN - PROGRESS UPDATE

4.1 Appendix 1 contains the completed Pension Fund Governance Review and Stewardship Code Actions 2023/24 (Governance Action Plan) up to December 2023. This shows that all actions which were due to be delivered in the final quarter of calendar year 2023 have been completed.

4.2 The sections of the Governance Action Plan are:

a) A summary of what has been done by category.
b) The Fund's aims and objectives.
c) A summary of successes and areas for improvement; including the actions completed in 2023, Quarterly.
d) Key stakeholders.
e) An overview of the Fund's resources.
f) Progress update.

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, which 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 – 12th December 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.

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

Appendix 1

Scottish Borders Council Pension Fund
Governance Action Plan

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)

2023 update

Risk Management & Assurance

Source Reference	How we will achieve our objective… (Action)	Key Tasks	By whom? Owner	Scheduled Completion	Progress
RA1	Fund to document how it complies with TPR Code(s), including the risk of non-compliance	Risk of non-compliance incorporated into Risk Register Completed – no action required	CO A&R	Qtr.3 2023	Completed-Pre-emptied the publication of TPR General Code
St.C 1.4 RA(i)	Fund to: Refresh and rationalise risk register to provide more focus on priority risks and areas within the Fund's control	Risk Register refresh Completed – no action required	CO A&R	Qtr.3 2023	Completed-risk updates presented to joint meetings PFC/B Sept & Dec 2023
RA(ii)	Develop clear definitions of impact & likelihood to assess risks and include in Committee reports	Clear definitions for risk categories Completed – no action required	CO A&R	Qtr.3 2023	Completed
RA2 St.C 1.5	To expand Fund's Internal Audit remit to cover its specific risks (inc. ESG) and consider resource needed to provide this level of assurance	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	Completed

Investment Oversight & Reporting

Source Reference	How we will achieve our objective… (Action)	Key Tasks	By whom? Owner	Scheduled Completion	Progress
St.C 1.3	Use improved monitoring & reporting/ data quality to continually review and update Fund's Responsible Investment Policy objectives	• Review and update/revise Responsible Investment Policy in line with review cycle. • Responsible Investment Plan - metrics & targets update, led by Isio • Implementation Statement updates, poduced by Isio, for Stewardship Code Report	PI& A Manager/ISIO	Annual Review Qtr.4 2023 & annually Qtr. 3 2023 – then annually	ISIO presenting at March 2024 Pension Fund Committee/Board meeting

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Scottish Borders COUNCIL

INFORMATION UPDATE

Briefing Paper by Director of Finance and Procurement

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

4 March 2024

1 PURPOSE AND SUMMARY

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

2 BACKDATED PAY AWARD

2.1 At a previous meeting of the Joint Committee and Board discussions had taken place over the impact of late pay awards and the resource implications that this has on Fund Officers.

With the Scottish Borders Council pay award effective from 1 April 2023 being a late settlement the Pensions Administration Team have monitored how long it takes to rework the pension calculation and associated tasks.

2.2 To the point of recalculating and independently verifying the figures this is on average 35 minutes per instance. With a further 10 minutes per instance to process and carry out the control checks thereafter.

For the 103 members that have been revisited this is circa 77 hours additional work that the Pensions Admin Team have to absorb, all of which would not be required if the award was settled in advance of the due date.

3 LGPS (SCOTLAND) (AMENDMENT) REGULATIONS 2024

3.1 The above amendment Regulations were laid on 8 February. They come into force on 28 March 2024, and are backdated to 31 March 2023.

They cover changes to three areas:

1. The CARE annual revaluation date

2. Triennial actuarial valuations
3. Employer cessation valuations

Hymans Robertson have provided the Fund with a briefing note, which can be found at Appendix1, and Fund Officers will be meeting with Hymans Robertson to discuss these and the impact on the relevant policies for the Fund.

4 SCHEME ADVISORY BOARD

4.1 Scheme Advisory Board Bulletins from November 2023 can be found at Appendix 2.

5 STEWARDSHIP CODE

5.1 As the Committee are aware, the Council submitted an application to renew our status as signatory of the Stewardship code to the UK Financial Reporting Council (FRC) on the 31st October 2023. We are delighted to confirm that we were notified on the 15th February 2024 of the successful outcome of the Council's application to continue to be signatories of the Stewardship code.

6 TRAINING OPPORTUNTIES

6.1 Annual knowledge skills assessments will be sent to Committee members to establish further training requirements for a programme throughout 2024/2025.

7 FUTURE MEETINGS

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

Joint Pension Fund Committee and Pension Fund Board

- Thursday 20 June 2024

Pension Fund Investment Performance Sub Committee

- Monday 18 March 2024
- Monday 24 June 2024

Author(s)

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