

Review of Governance of the Scottish Borders Council Pension Fund

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Executive Summary

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

Key Findings

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

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

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

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

Key Recommendations

A summary of the key recommendations is provided below:

Governance Structure and Decisions Making

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

Objectives and Planning

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

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

Outcomes and Oversight

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

Risk Management and Audit

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

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

Clare Scott

Independent Adviser

Introduction

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

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

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

The Pensions Regulator

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

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

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

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

Pension Boards

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

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

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

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

Forthcoming Changes – The Pensions Regulator Code of Practice

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

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

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

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

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

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

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

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

Forthcoming Changes – Good Governance Review

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

A summary of the recommendations is as follows:

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

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

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

The Process for the Review of Governance

The review looked at the following areas:

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

Research was undertaken by:

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

The documents reviewed included:

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

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

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

Findings and Recommendations

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

Governance Structure and Decision Making

Committee Structure

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

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

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

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

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

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

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

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

Pensions Board

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

Recommendations:

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

Training

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

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

Recommendations are as follows:

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

Resourcing and Delegations

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

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

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

Recommendations:

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

Objectives and planning

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

Recommendations:

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

Outcomes and oversight

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

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

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

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

Recommendations:

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

Investment Oversight

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

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

Recommendations:

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

Recommendations on investment reports:

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

Risk Management and Audit

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

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

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

Recommendations:

Risk

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

Audit

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

Conclusions and Next Steps

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

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

Clare Scott

Independent Adviser

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

“Organisational Principles

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

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

Appendix 2 - Useful Links

The Pensions Regulator:

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

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

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