

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, 21 March 2023 at 10.00am.

Present:- Councillors D. Parker (Chairman), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, W. McAteer, J. Pirone, S. Scott, Mr D. Bell, Mr M. Drysdale, Mr M. Everett, and Ms L. Stephen.

Apologies:- Mr A. Daye, Ms K M Hughes and Ms K Robb

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

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

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 12 December 2022.

DECISION

NOTED for signature by the Chairman.

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

There had been circulated copies of the Minute of the Meeting of the Pension Fund Investment and Performance Sub-Committee held on 31 October 2022.

DECISION

NOTED for signature by the Chairman.

2. **STATEMENT OF INVESTMENT PRINCIPLES**

There had been circulated copies of a report by the Acting Chief Financial Officer which proposed the revised Statement of Investment Principles (SIP) for 2023. The report explained that the SIP should be kept under review and updated and approved annually in line with the Pension Fund's business plan. The report discharged that requirement. The Pension Fund was required by the Local Government Pension Scheme Regulations to have an up-to-date Statement of Investment Principles. Appendix A to the report contained the revised Statement of Investment Principles. The Acting Chief Financial Officer, Mrs Suzy Douglas, presented the report and provided an overview of the SIP. Mr Andrew Singh of Isio explained that the report represented an annual refresh of the principles which govern the Fund. Members welcomed the report.

DECISION

AGREED to approve the Statement of Investment Principles contained in Appendix A to the report.

3. **RISK REGISTER UPDATE**

With reference to paragraph 2 of the Minute of the Meeting held on 13 December 2022 there had been circulated a report by the Acting Chief Financial Officer which formed part of the risk review requirements and provided an update on the risk register. The report explained that identifying and managing risk was a cornerstone of effective management and was required under the Council's Risk Management Policy and

process guide and CIPFA's guidance "Delivering Governance in Local Government Framework "2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. Following the Committee meeting on 13 December 2022 the Council had appointed Isio to assist with the management of the Pension Fund. As part of their remit, they had reviewed the risk register and had made a number of observations and comments. In response to a question regarding the appointment of Isio to assist with management of the Fund, Mrs Douglas confirmed that the appointment was on an interim basis whilst SBC went through the recruitment process to hire an in-house Pension Fund Manager. Mrs Douglas confirmed that additional costs would be incurred by the Fund due to the extra work carried out by Isio, and undertook to share the details with Members. Members highlighted that the Fund had been quick to respond to the recommendations of Clare Scott's report, and had taken steps to reduce the number of risks within the register promptly.

**DECISION
AGREED:-**

- (a) to a review of the Risk Register as outlined the report; and**
- (b) to the timetable set out in paragraph 3.1 (f) of the report.**

4. PENSION FUND BUDGET MONITORING TO 31 DECEMBER 2022

With reference to paragraph 4 of the Minute of the Meeting held on 12 December 2022, there had been circulated copies of a report by the Acting Chief Financial Officer which provided an updated position of the Pension Fund budget to 31 December 2022 including projections to 31 March 2023. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they were to be measured against. To ensure the Fund met the standards, a budget was approved on 17 March 2022 following the recommendations within the CIPFA accounting guidelines headings. The report was the third quarterly monitoring report of the approved budget. The total expenditure to 31 December 2022 was £3.739m, with a breakdown provided within the report. Total projected expenditure was £7.4m. Mrs Douglas presented the report and highlighted that the majority of the budget was based upon investment manager costs, which were in turn based on investor returns. It had been determined that it would be helpful to delay the setting of the budget until the 2022/23 outturn position was known, and that approval for the budget would therefore be sought at the next meeting. The third quarter expenditure for investment management fees was not available and therefore had not been included in the monitoring to 31 December 2022, and would be reflected in the report which would be presented at the next meeting of the Committee. In response to a question regarding the inclusion of the additional costs incurred with Isio in the 2022/23 outturn, Mrs Douglas confirmed that they would be included. Regarding the budget for 2023/24, Mrs Douglas confirmed that the proposed budget would be presented to the Committee in June. The final 2022/23 outturn would also be presented at that meeting. In response to a question regarding a fall in investment income in Quarter 4 compared to the preceding 12 months, the Chief Executive explained that investment income was highly variable in terms of quarterly performance, and that it was premature to state whether that formed part of an ongoing trend. There were no long term concerns regarding investment income.

**DECISION
AGREED to:**

- (a) note the actual expenditure to 31 December 2022; and**

(b) note the projected out turn position to 31 March 2023.

5. INTERNAL AUDIT PLAN 2022/24 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND

With reference to paragraph 10 of the Minute of the meeting held on 17 March 2022 there had been circulated copies of a report by the Chief Officer Audit and Risk which presented the Internal Audit Annual Plan 2022/23 for approval to enable the Chief Officer Audit and Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment. The report explained that the Public Sector Internal Audit Standards (PSIAS) required the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk based plans to set out the areas of Internal Audit activity, consistent with the objectives of the Pension Fund. A fundamental role of the Internal Audit function was to provide senior management and members with independent and objective assurance, which was designed to add value and improve the organisation's operations. In addition, the CAE was also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment. The proposed Internal Audit Annual Plan 2023/24 for the Pension Fund in Appendix 1 to the report set 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 included a clear understanding of the organisation's functions, associated risks, and assurance framework. There were resources currently in place to achieve the Internal Audit Annual Plan 2023/24 for the Pension Fund and to meet its objectives. The Chief Legal Officer presented the report and explained that the Chief Officer Audit and Risk had been unable to attend. It was hoped that a change in format of the Audit would provide a greater level of transparency. The number of internal audit days deployed to the Pension Fund audit had increased from 5 to 20.

**DECISION
AGREED to**

(a) approve the Internal Audit Annual Plan 2023/23 for the Scottish Borders Council Pension Fund; and

(b) note that any changes in-year would be brought back for approval.

6. EXTERNAL AUDIT PLAN 2022/23

There had been circulated copies of the External Annual Audit Plan 2022/23 for the Scottish Borders Council Pension Fund prepared by Audit Scotland. The Chairman welcomed Mr John Boyd and Ms Stephanie Harold of Audit Scotland to the meeting to present the report. Mr Boyd explained that his team had been appointed as Auditor of the Fund for a five year period. The Plan for 2022/23 was comparable to preceding years. The main elements of Audit Scotland's work would include an evaluation of the key controls within the main accounting systems; an audit of the annual accounts and the provision of an independent Auditor's Report; an opinion on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement; and consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes. Regarding materiality, Mr Boyd explained that planning materiality had been set at 1.5% of gross investment assets based on the Quarter 2 2022/23 investment performance reporting. Considerable focus would be paid to asset performance. Audit Scotland were required to report to those charged with governance on all unadjusted misstatements more than the reporting threshold amount, which was set at 2%, or £250k. The report outlined two areas of risk, material misstatement due to fraud caused

by the management override of controls; and estimation applied to Level 3 Investments, which had been identified as significant risks of material misstatement to the financial statements. Those risks had the greatest impact on planned audit procedures. Level 3 investments were an inherent risk due to the subjectivity and estimation in their values as they were not based on published market data. The report outlined planned responses, which included engagement with investment managers and assessments of their controls on valuation and analytical procedures. Mr Boyd highlighted that a final area of focus for Audit Scotland would concern the estimations applied to the International Accounting Standard (IAS) 26 actuarial valuation. An assessment of the assumptions applied by the Fund through the appointed actuary would be carried out. The annual report would also include findings related to the financial management; financial sustainability; vision, leadership and governance; and the use of resources to improve outcomes. Mr Boyd confirmed that the statutory deadline for the independent auditors report was 30 September 2023, and that he expected to present the report to the Committee by that time.

DECISION

AGREED to approve the Scottish Borders Council Pension Fund External Audit Plan 2022/23.

7. INFORMATION UPDATE

There had been circulated copies of a briefing paper by the Acting Chief Financial Officer which provided an update on a number of areas which were being monitored and areas where work was progressing. Full reports on the individual areas would be tabled as decisions and actions were required. The HR Shared Services Manager confirmed that Fund officers were working with Hymans Robertson as part of the triennial evaluation, and an indicative timeline had been provided. Formal training with Hymans Robertson was expected to be carried out at a future date. The Acting Chief Financial Officer provided a positive update on the Fund's application as a signatory to the UK Stewardship code to the UK Financial Reporting Council. The application had been successful, and the accreditation put the Fund in a select group of LGPS funds who had also become signatories. Further areas of improvement and future actions would be required to maintain the accreditation, and a further report would be brought to the Committee outlining an action plan for delivery. Future training opportunities would be circulated when they became available. It was agreed that future meetings of the Pension Fund Investment and Performance Sub-Committee would be held in person. Expenses would be incurred where Fund Managers had to travel in order to attend the meeting. In response to a question regarding the costs incurred as part of the Stewardship Code, the Chief Executive confirmed that there was a small fee, in the context of the Fund, and that the code demonstrated that the Fund was meeting the highest standard of governance. Regarding whether the Fund should focus on delivering profits over administrative matters, the Chief Executive highlighted that the Fund was well diversified and protected.

DECISION

NOTED

8. PRIVATE BUSINESS

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

SUMMARY OF PRIVATE BUSINESS

9. **MINUTE**
The Committee considered the Private Minute of the Meeting held on 13 December 2022.
10. **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 31 October 2022.
11. **QUARTER 4 INVESTMENT PERFORMANCE REPORT**
The Committee noted the Quarter 4 Investment Performance report by Isio.
12. **BAILLIE GIFFORD EQUITY ALLOCATION – PERFORMANCE ANALYSIS**
The Committee noted a report by Isio on Baillie Gifford's performance and agreed to hold a special meeting.

The meeting concluded at 11.40 am.