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# Scottish Borders Council Pension Fund

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## **Risk Management Strategy**

Version No.	1.0	Next Review Date:	March 2027
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# 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.

**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.

## 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.

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## 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.

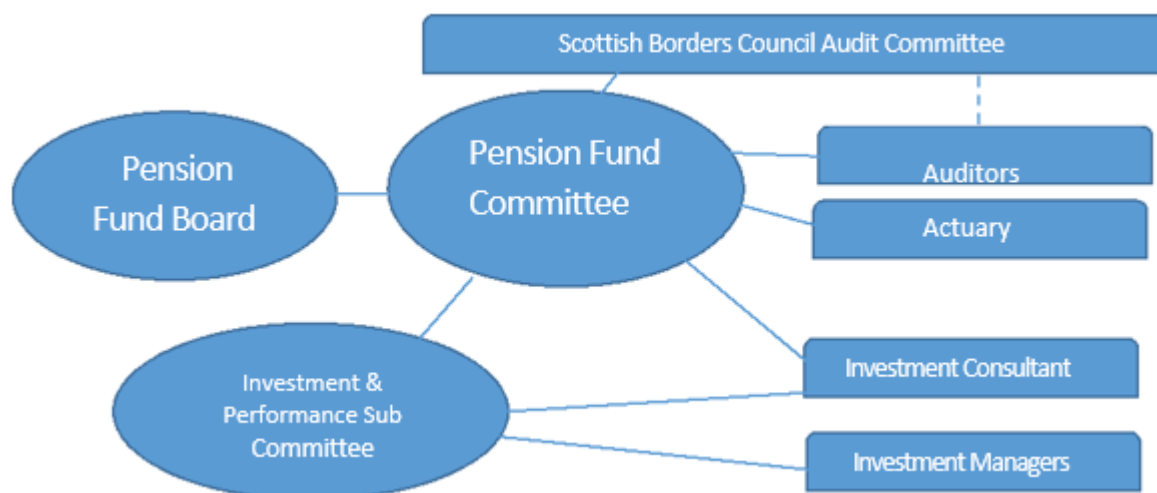


Diagram 1: Pension Fund Governance Arrangements Source: Annual Report and Accounts 2022/23

**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.

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## 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.

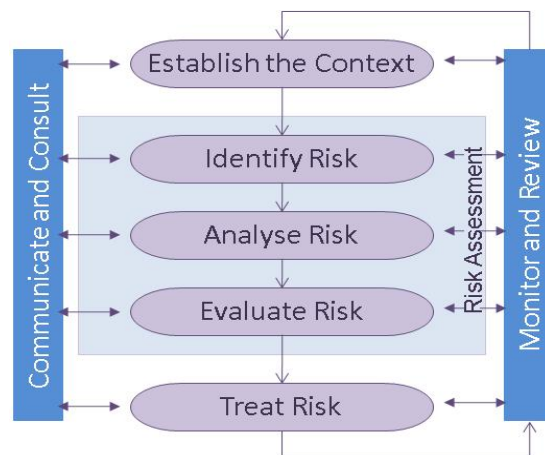


Diagram 2: Standard risk management process

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.

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## 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:

<b>Risk Category</b>	<b>Quarterly Meeting Cycle</b>
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 Committee at the joint meeting of the Committee/Board on .....

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