

Scottish Borders Council
Pension Fund

annual report and accounts

for the year to 31 March 2020



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SECTION 1

INTRODUCTION

CHAIRMAN'S REPORT



Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year

ended 31 March 2020. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in financial year 2019/20.

Highlights of the Year Pension Fund Committee/Pension Board

The Pension Fund Committee has worked hard during the year in response to the continually growing governance agenda and increasingly complex pension administration environment that the Fund operates within.

The Committee members have engaged with training events both locally and nationally to expand their knowledge and understanding. All members of the Committee and Board fully met the training requirements.

The Joint meetings of the Committee and Board continued during 2019/20 to be productive and informative due to the positive engagement of all members.

The Investment and Performance Sub-Committee, has met all investment managers during the year, which has allowed the committee full scrutiny of funds managed.

Investment Assets

Due to COVID-19 and the subsequent market crash in March 2020, the Fund has seen for the first time since 2008 negative performance of 1.7% against a benchmark of negative 1.9%. The rebalancing and diversification work which has been ongoing for the last 5 years has meant the full effect of the market crash has not been felt by the Fund.

The Fund has throughout 2019/20 continued with the processing of diversifications away from equities and has increased its investments in infrastructure from £11.5m to £26.4m. It has also increased infrastructure debt to £32m.

Statement of Responsible Investment

The Committee believes that a positive approach to Environmental, Social and Governance (ESG) issues can positively affect the performance of the Fund. Good progress has been made with the Fund's first annual responsible investment report being approved. This report showed that 99.8% of the Funds' assets are managed by United Nations Principles of Responsible Investment (UNPRI) signatories. The Fund continues to work with all its managers to ensure ESG is fully integrated into all their investment decisions.

The Fund has also during the year become signatories to Climate Action 100+ initiative which is actively working to ensure the Paris Agreement climate change targets are met.

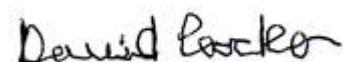
Pensions Administration

100% of annual benefit statements were distributed within the required timescales and an Admission Policy approved.

COVID-19 has brought new challenges, which the service has met. All payments to pensioners continue to be paid on time and queries responded to in the usual manner.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers of the Council, our investment managers, Isio and the Fund Actuary Hymans Robertson for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.



Chairman, Pension Fund Committee
Scottish Borders Council

SECTION 2

MANAGEMENT COMMENTARY

MANAGEMENT COMMENTARY SUMMARY

STRATEGY AND OBJECTIVES

Scottish Borders Council Pension Fund's primary aim 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". All the longer term policies, objectives and strategies of the Fund reflect this aim.

The Scottish Borders Council Pension Fund Committee agree all policies and strategies. Scrutiny of these decisions are provided by Scottish Borders Council Pension Fund Board. All key policies and strategies are located on the Fund's website.

GOVERNANCE

The Pension Fund Committee aims to ensure the Fund is managed effectively, transparently and in compliance with regulations. A review of the governance arrangements and performance is undertaken on an annual basis. The review has confirmed the Fund is fully compliant with the Local Government Pension Scheme (Scotland) Regulations 2014 requirements.

The Fund, annually, agrees a three year business plan which sets out the action plan to deliver the key work areas identified to ensure objectives continue to be met. The actions are monitored and reported to the Pension Fund Committee. The key actions completed in 2019/20 were:-

- Approval of a new Admission Policy.
- Submission of all required Guaranteed Minimum Pension data to HMRC.
- Approval of the first annual Responsible Investment report.
- Annual training requirements for Committee and Board Members.

Good progress was also made for implementation of a new self-service facility for members

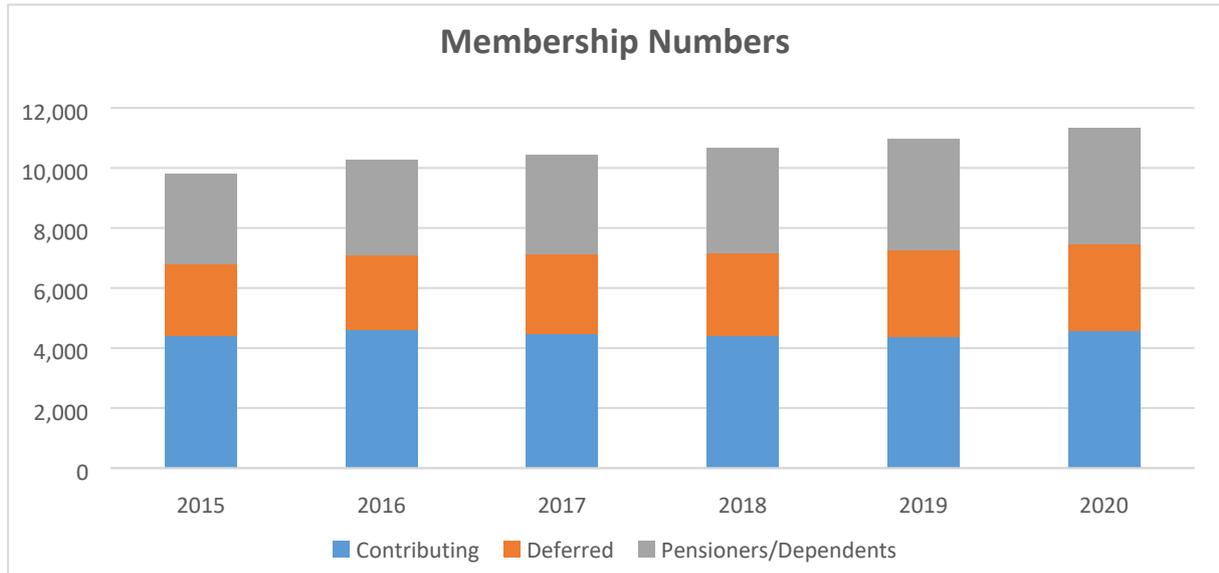
ADMINISTRATION AND MEMBERSHIP

The Pension Administration Strategy sets out the performance standards required by both Scottish Borders Council, as administrating authority and all employers of the Fund. The performance of the Fund against these standards is reported on an annual basis to the Pension Fund Committee.

The Fund has paid pensions benefits of £23.6m during the year and received contributions of £19.8m. The Fund has continued to mature with net withdrawals for dealing with members increasing to £5.3m during 2019/20 compared to £3.6m in 2018/19, the increase in the new withdrawals has been funded by increased income from investment returns. Throughout the COVID-19 crisis, pensions have been paid on time and contributions have been collected. The ability for staff to work from home has allowed the administration function to perform as normal.

The maturing nature of the Fund is reflected in the membership numbers which are shown in the table below. Active members at 31 March 2020 increased during the year to 11,338 but active

contribution members now only represent 40% of the membership compared to 45% on 31 March 2015.



COMMUNICATION

The Fund’s Communication Policy seeks to ensure communication in an efficient manner to all stakeholders. Communication is undertaken in a number of ways including the Fund website, annual newsletters and statements, emails, face to face meetings and telephone.

Due to COVID-19 additional communication has been undertaken via the website including FAQs information on pension fund increases and guidance for pensioners on how to access online payslips.

FUNDING

The most recent three yearly Actuarial Valuation was 31 March 2017 with the Fund reporting a funding position of 114%. The next formal valuation of the Fund will be as at 31 March 2020. Interim monitoring is undertaken on a quarterly basis between valuations and reported to the Pension Fund Committee, the latest estimate shows an improvement on the funding position. However, uncertainties caused by GMP reconciliation, the scheme costs cap mechanism and legal challenges on the grounds of age discrimination, arising from the McCloud judgement may have an impact on the funding position, that value of which is as yet unknown. The Fund will continue to develop its funding and investment strategies to address these issues.

INVESTMENT

The Fund’s investment returns delivered a negative return of 1.7% against a benchmark of negative 1.9% for the year to 31 March 2020. Although this return was negative, the diversification implemented over the last five years to reduce the risk exposure to equities has meant the full impact of the market crash due to COVID-19 in March was not fully felt within the Fund.

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Investment markets during 2019/20 have at times been very volatile. Against this background the Fund, as a longer term investor, has retained confidence in the long term strategy set out in the Statement of Investment Principles. Work to implement the strategy has continued, with equity exposure decreasing and funds being invested in longer term illiquid assets such as infrastructure and infrastructure debt.

The Strategy has resulted in increased levels of investment income which has allowed the Fund to meet the increasing net withdrawal for dealing with members, which increased to £5.3m in 2019/20.

The Fund has an overriding obligation to act in the best interest of the scheme beneficiaries. As part of this role the Fund believes that a positive approach to Environmental, Social and Corporate Governance issues can positively affect the financial performance of investments.

The Fund has, in line with its Statement of Responsible Investment Policy, completed its first annual report on all our managers. 11 out of the 12 managers are signatories of UNPRI with the one remaining manager only representing 0.02% of the Fund's assets. The Fund has during the year declined investment opportunities offered by managers not signatories of UNPRI.

The Fund has also become a signatory to Climate Action 100+ which is working with Investors and Fund Managers to reduce carbon emission and ensure the Paris Agreement targets are met. The three main aims are:-

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change;
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development in a manner that does not threaten food production; and
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.



David Parker
Chair
Pension Fund Committee

05 November 2020



Rob Dickson
Exec Director Corporate
Improvement & Economy
Scottish Borders Council

05 November 2020



David Robertson CPFA
Exec Director Finance &
Regulatory
Scottish Borders Council

05 November 2020

KEY TRENDS

Membership	2015/16	2016/17	2017/18	2018/19	2019/20
Active Members	4,594	4,466	4,409	4,376	4,573
Deferred Members	2,508	2,652	2,751	2,878	2,909
Pensioners	3,157	3,314	3,507	3,707	3,856
Total Members	10,259	10,432	10,667	10,961	11,338

Investments	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Opening Net Value	544,460	541,778	653,207	685,681	731,048
Movement in year	(2,682)	111,429	32,475	45,367	(18,728)
Closing Net Value	541,778	653,207	685,681	731,048	712,319
Investment Income	6,451	8,292	8,195	13,314	13,938
Investment Fees	2,754	3,051	8,192	5,848	5,296

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Administrative costs	(301)	(263)	(292)	(391)	(363)
Oversight & Governance costs	(217)	(241)	(233)	(289)	(263)
Pensions Income	19,053	19,447	19,610	20,647	21,200
Pensions Expenditure	(21,024)	(21,676)	(22,189)	(24,257)	(26,555)
Net Pensions Cash flow	(1,971)	(2,229)	(2,579)	(3,610)	(5,355)

SCHEME ADMINISTRATION

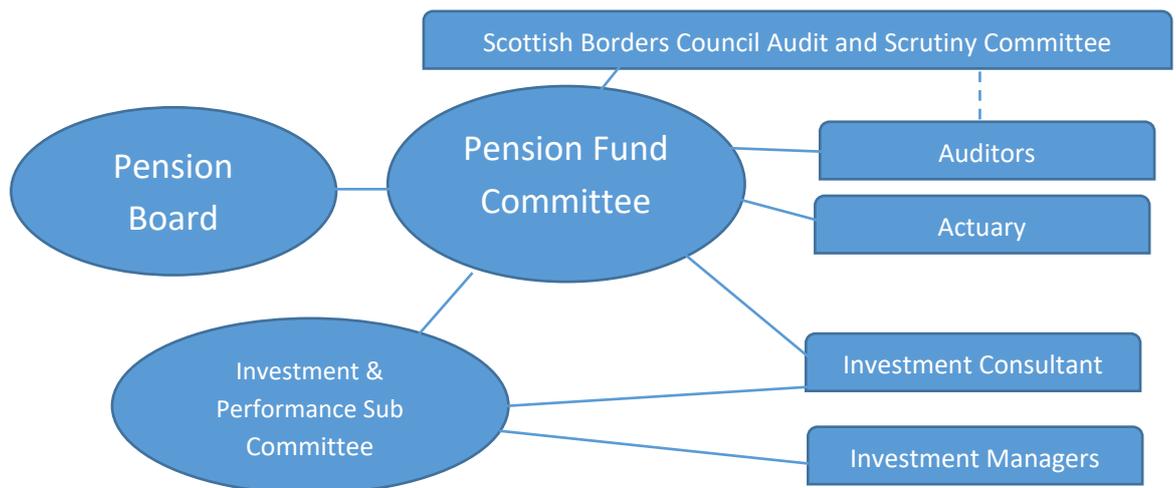
The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority).

The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2014. The Fund adheres to Scottish Borders Council policies for managing conflicts of interests, codes of conducts and register of interests.

David Robertson, Executive Director Finance and Regulatory, as the Council's Section 95 Officer, is responsible for the financial administration of the Fund.

SCHEME GOVERNANCE

The Governance structure of the 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 one week prior to the meeting. Scottish Borders Council Pension Fund Governance:-



Pension Fund Committee – is the main decision making body for the Fund, is chaired by the Convenor of the Council, and consists of six Scottish Borders Council Councillors.

Pension Board – assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The 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 Hyman 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 department and the external audit function is provided by Audit Scotland.

Scottish Borders Council Audit & Scrutiny Committee – provides independent scrutiny of the Pension Fund Committee's adequacy, effectiveness and systems of internal control.

PENSION FUND COMMITTEE

The Members of the Pension Fund Committee have a fiduciary responsibility to the Pension Fund members and employers that are similar to those holding office of trustee in the private sector. The Members of the Committee are responsible for the decision making of the Fund and hold meetings four times a year. The Committee is comprised of seven elected Members of Scottish Borders Council. The membership is shown below:-



Councillor David Parker - Chair



Councillor Simon Mountford – Vice Chair



Councillor Jim Brown



Councillor Gordon Edgar



Councillor Carol Hamilton



Councillor Donald Moffat



Councillor Sandy Scott

PENSION FUND BOARD

The Local Government Pension Scheme (Government)(Scotland) regulations require each administering authority to have a Pension Board, responsible for assisting the Fund in securing compliance with the regulations and other legislation relating to the administration and governance of the Fund.

The Pension Board comprises an equal number of employee and employer representatives appointed by scheme employers and relevant trade unions.

As at 31 March 2020 the Scottish Borders Council Pension Board membership comprised the following:-

Employer Representatives:

- Councillor Sandy Aitchison – Scottish Borders Council
- Hazel Robertson – Scottish Borders College
- Linda Ross – LIVE Borders
- Carly Stewart – SBHA

Employee Representatives:

- Alexander Barclay – UNITE
- Malcolm Drysdale - GMB
- Marc Everett - UNISON
- Kay Marie Hughes – UNISON

In accordance with the regulations the Pension Fund Board meets jointly at the same place and time as the Pension Fund Committee to allow consideration of the same agenda, presentations and advice from external advisors. The Chair of the Pension Fund Committee acts as Chair of the joint meeting. The Pension Board meet separately, immediately following the joint meeting.

INVESTMENT & PERFORMANCE SUB-COMMITTEE

The Investment and Performance Sub Committee is responsible for making recommendations to the Pension Fund Committee on all areas of investment management including the Statement of Investment Principles and the management of Investment Managers. The Sub-Committee comprises Pension Fund Committee Members and an employee and employer representative from the Pension Board. The Sub-Committee meets three times a year.

RISK MANAGEMENT

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately.

The Risk Register for the Pension Fund has been developed in line with CIPFA guidance and the Council's approach to risk management and assesses risk using a scoring methodology based on likelihood and impact.

A full risk review was undertaken in June 2019. All identified actions are monitored and reported on a quarterly cycle.

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The headings under which the Council consider risk and the analysis of the level and number of risks are set out below:

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	4	6	-	-	7	3
Employer	-	4	-	-	1	3
Resource & Skill	-	5	-	-	2	3
Liquidity	2	4	-	-	2	4
Administrative	-	8	-	-	1	7
Regulatory & Compliance	3	2	-	1	2	2
Reputation	2	4	-	-	2	4
Total Number of Risks	11	33	0	1	17	26

RED -Very High (15-25)

AMBER – High (6-12)

GREEN – Low (1-5)

The one risk remaining as a red assessment, as at 31 March 2020, is “Legislation and other regulatory framework changes impacting on the Fund”. The Fund is managing and monitoring this risk by ensuring it actively participates in all consultations and keeps abreast of all legislative and regulatory changes.

TRAINING POLICY & PRACTICE STATEMENT

The Council recognises the importance of ensuring that all staff and members, charged with the financial administration and decision making of the Scottish Borders Council Pension Fund, are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to utilise individuals who are both capable and experienced. Training for staff and members of the Pension Fund Committee and Pension Board is provided to enable them to acquire and maintain an appropriate level of expertise, knowledge and skill.

The approved Training Policy adopts the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The Policy also reflects guidance issued by the Scottish Public Pensions Agency and The Pension Regulator concerning skills and knowledge requirements.

The Training Policy applies to members of the Pension Fund Committee and the Pension Board. It requires all members to complete the Pension Regulator Toolkit within six months of joining the Board and to attend at least two training events a year. The Policy also requires an annual training plan to be agreed. The 2019/20 plan was approved on 13 June 2019 and was based on assessment returns completed by all

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members. The table below shows all members attended two or more events. All members have also completed the Pension Regulator Toolkit.

Training attendance

No of events	Committee Members		Board Members	
	%	Number	%	Number
5	29	2	0	0
4	14	1	25	2
3	14	1	63	5
2	43	3	12	1

The training covered the following areas:

- Financial Markets and Investment Products
- Investment Concepts and Terminology
- Role of Custodian
- LGPS Benefits Structure
- Regulatory Environment

All members are also required to attend, as a minimum, two meetings of the joint Pension Fund Committee and Pension Board a year. The table below shows all members met this requirement for 2019/20.

No of meetings	Committee Members		Board Members	
	%	Number	%	Number
4	43	3	50	4
3	57	4	12	1
2	0	0	38	3

ANNUAL GOVERNANCE STATEMENT

The Local Government Pension Scheme (Scotland) Regulations 2014 requires Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Pension Fund is the Governance Policy and Compliance Statement (as amended on 22 June 2020) which is available on the Council's website: [Governance Policy and Compliance Statement](#)

Governance Framework

The key elements of the Pension Fund's governance arrangements include:

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme for the Scottish Borders geographical area. The Council has acknowledged its responsibility for ensuring that there is a sound system of governance (incorporating the systems of internal control) and this is reflected in the Council's governance arrangements.
- b) The Council has delegated its responsibilities as Scheme Manager, to the Pension Fund Committee. The Members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund. The overall responsibility of ensuring there is a sound system of governance remains with the Chief Executive.
- c) The Pension Board meets jointly with the Committee, and formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business Plan covering the period 2018/19 – 2020/21, to improve planning and monitoring of the performance of the Fund and to demonstrate the "Myners Principle" relating to effective decision making. The Business Plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that is managed effectively, transparently and is compliant. The Business Plan ensures actions are included to address issues raised in the Annual Governance Statement.
- e) The Pension Fund appoints professional advisers and external service providers, covering investment advisory, custodian and actuarial services.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected Members embodied in procedural standing orders, financial regulations, Scheme of Delegation and Scheme of Administration. This is supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks and targets, and independent performance reviews of the Fund by the investment consultant and performance monitoring service provider.
- g) The Pension Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the Risk Register to regular review.
- h) The Executive Director Finance and Regulatory (Section 95 Officer) for the Council is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate professional

advice is sought and is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.

- i) The Service Director Human Resources is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved Pension Administration Strategy.
- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Scrutiny Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

The Council as Administering Authority of the Pension Fund, conducts an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Scrutiny Committee whose role includes high level oversight of the Pension Fund's governance, risk management, and internal control arrangements.

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles, details of which are set out in the Governance Compliance Statement 2019-20 (pages 14 - 24).

The review of the effectiveness of the system of internal financial control is informed by the work of professional accountancy staff within the Council, the assurances from the Chief Officer Audit & Risk's annual internal audit report on the work of internal audit, and by the external auditors' reports.

The review cycle for the Risk Register is undertaken in line with agreed practice and the current status is summarised in the Risk Management Statement.

Internal Audit Opinion

The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control operating in 2019/20 within the Scottish Borders Council Pension Fund are adequate, and governance and risk management arrangements are effective.

During 2019/20 the following assurance reviews were undertaken:

- Governance and decision-making
- Risk Management

- Pensioners Payroll (as part of the Scottish Borders Council audit on Business World ERP System Key Controls).

The Fund has effective governance arrangements in place through the Pension Fund Committee and Board that support scrutiny and transparency of decisions made. The Business Plan 2019/20 to 2021/22 for the Pension Fund was approved by the Pension Fund Committee and Board on 13 June 2019. It identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund. A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Pension Fund Committee and Board on 17 December 2019.

Risk Management is fully embedded into the culture of the Pension Fund with evidence of risk deliberations in decision-making and regular reviews/updates of the Pension Fund Risk Register being carried out, in accordance with the Council's Risk Management Policy and Framework, and reported to the Committee and Board for scrutiny and oversight of risk management.

Internal Audit work on Business World ERP System Key Controls included the testing of Pensioner Payroll payments. Specifically this confirmed that reasonable assurance can be placed on key controls and processes to ensure that transactions are valid, complete and accurate.

The 2019/20 annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) demonstrates sufficient evidence that the Council's Internal Audit section conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards.

Improvement Areas of Governance

The following areas of improvement were completed during 2019/20:

- a) Development and approval of Admission Policy.
- b) Development and implementation of an annual monitoring of Responsible Investment Policy

The review identified some areas where further improvements for 2020/21 can be made to enhance the existing governance arrangements:

- a) Development and approval of Cessation and Discretion Policy.
- b) Implementation of self service facility
- c) Employer covenant review
- d) Improvement of systems to support home working
- e) Review of Stewardship Code
- f) Review of strategic asset allocation following the 31 March 2020 valuation.

Impact of COVID-19

The governance arrangements set out in this statement operated for the majority of the year until the impact of the global COVID-19 pandemic led to changes in the responsibilities, decision making structure and working arrangements in March 2020.

On 26th March 2020 Scottish Borders Council held a virtual meeting to agree temporary decision making arrangements to minimise social contact during the pandemic. It was agreed all formal Council and Committee meetings be cancelled unless required for statutory reasons and additional powers delegated to the Chief Executive in consultation with Officers and Members.

Business continuity plans were implemented with staff mainly working at home with full access to systems and files. During the pandemic period all services have been fully maintained and all payments made in a timely manner. With respect to Investments, the full effect of the pandemic on investments are not yet fully known. Officers are working with fund managers to ensure risks are identified and mitigations measures are in place. A full review will be undertaken and future business continuity plans updated to reflect findings.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control, governance and risk management. The annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Policy and Compliance Statement (page 19).

David Parker

**Councillor David Parker
Chairman
Pension Fund Committee**

Rob Dickson

**Rob Dickson
Executive Director Corporate
Improvement & Economy
Scottish Borders Council**

5 November 2020

ANNUAL GOVERNANCE COMPLIANCE STATEMENT

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements against standards set out by Scottish Ministers. These standards are established via a number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles.

Principle		Full Compliance	Comments
Structure			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the Committee).</p> <p>The Committee comprises seven elected Members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p>
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	<p>The Pensions Board (the Board) formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board has eight members (four employer representatives and four trade union representatives) covering all pension fund members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board's Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The Investment and Performance Sub-Committee (the Sub-Committee) established under the Committee. Its remit is set out in the Scheme of Administration. Membership of the Sub-Committee is seven elected Members from the Pension Fund</p>

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Principle		Full Compliance	Comments
			Committee and two (non-voting) members from the Pension Board.
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to the Pension Fund Committee for approval. Two members from the Pension Board and all Members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
Committee Membership and Representation			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members) (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Pension Board and Pension Fund Committee meet jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Pension Board. The Independent Investment Consultant, Finance and HR Officers also attend in an advisory capacity.

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Principle		Full Compliance	Comments
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training. They are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June). The Board was established by Council on 2 April 2015. The Scheme of Administration for the Pension Fund Committee, and the Pension Board Constitution, provide for joint meetings, with equal rights to receive papers and access meetings.
Selection and role of lay members			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected Members this is part of the Council's Code of Governance along with the Members' induction programme. In addition, the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within six months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of the Council's Code of Governance requires the declaration of Members' interests for all committees as a standard agenda item.
Voting			
A	The policy of individual administering authorities on voting rights is clear and transparent, including justification for not	Yes	This is set out in the Council's Scheme of Administration and the Pension Board's Constitution

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Principle		Full Compliance	Comments
	extending voting rights to each body or group represented on main LGPS committees.		
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	Members' expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of training related expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The training policy for all members of the Pension Board and Pension Fund Committee is approved annually at the joint meeting in June.
C	The administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Annual Training Plan produced and implemented with logs of training attendance maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meetings of the Pension Fund Committee and Pension Board are quarterly.

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Principle		Full Compliance	Comments
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the main committee dates.	Yes	The Investment Sub-Committee meets every four months between the joint Committee/Board meetings.
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	The Pension Board formally provides for stakeholders' engagement.
Access			
A	Subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members as detailed in the Scheme of Administration.
Scope			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out the Committee as having a remit which covers all matters relating to the Council's role as Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.

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Principle		Full Compliance	Comments
Publicity			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest if wanting to be part of those arrangements.	Yes	Scottish Borders Council Pension Fund has a standalone website with all governance documents and Fund information. A link is provided to Minutes and public papers available via the Council's website.

PENSION ADMINISTRATION STRATEGY

The Pension Administration Strategy approved in September 2018 sets out the procedures and performance standards required by both Scottish Borders Council, as administering authority and the employers with the Fund. The procedures and performance standards are agreed to ensure the efficient and effective administration of the pension scheme. The strategy aims to ensure that

- A high quality pension service is delivered to all scheme members
- Pension benefits are paid accurately and on time
- Successful partnership working develops between the Fund and its employers
- Performance standards are understood, achieved and reported; and
- Performance and service delivery comply with the Local Government Pension Scheme (LGPS) regulations, other related legislation and The Pension Regulator's Codes of Practice.

PERFORMANCE

The Pension Administration Strategy sets out the statutory responsibilities of Scottish Borders Council as the administering authority. Service standards and key performance measures are agreed. The performance against these agreed standards and measures are reported annually to the Scottish Borders Council Pension Fund Committee and Pension Fund Board.

The performance for the year to 31 March 2020 is set out over

Employer Performance Measures

Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	812	100%
Change notification – within 20 days	1,429	100%
Retirement info – at least 20 working days before	97	100%
Early leaver notification – within 20 working days	875	100%
Death in service notification – within 10 working days	7	100%

Change notifications are a new category that has been captured this year as it results in a significant amount of work for the Pensions Admin team and it is worth quantifying. Included in the above figure are the 718 changes that were required following the re-integration of SB Cares with Scottish Borders Council, where all employees were TUPE transferred. This was a significant piece of work that had to be completed in addition to normal changes in a short period of time.

Contribution Payments

The following tables compare the date contribution payments are received against the target date, of 19th of the month, for each of the Scheduled and Active Admitted Bodies.

Employer Body	By Target Date	Late	% On Time
Scottish Borders Council	12	-	100%
Visit Scotland	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	12	-	100%
Jedburgh Leisure Facilities Trust	9	3	75%
Borders Sport and Leisure Trust	12	-	100%
AMEY Community Limited	12	-	100%
SB Cares	8	-	100%
CGI	12	-	100%
South of Scotland Enterprise	1	-	100%

The payments that were made after the target date were all received within a maximum of two calendar days. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.

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Administering Authority Performance Measures

Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	35	20 days	45.93%
Estimates – Transfer Out	113	20 days	56.64%
Estimate – All Other	911	10 days	77.83%

The Pensions Team and members of the HR Shared Services Helpdesk record when they have had contact in relation to pensions be this by email, in person or telephone and the headline reason of the enquiry. The following table summarises the queries received during 2019/20.

Type of Query	Volume	Target	%age Met
Admitted/Scheduled Bodies Employer Queries	102	5 days	100%
Advice on AVC applications	41	5 days	100%
Advice on Nominations and/or Death Grant	71	5 days	100%
Advice on Options at Retirement	46	5 days	100%
Annual Benefit Statement Queries	243	20 days	100%
Assistance with form completion e.g. retirement declaration	100	5 days	100%
Change of Address/Bank Details	285	5 days	100%
Divorce	5	5 days	100%
DWP requesting details of Pensioner Payments	12	5 days	100%
Enquiries in relation to Deceased Pensioners	349	5 days	100%
ER/VS general advice	12	5 days	100%
Flexible Retirement	63	5 days	100%
General advice	140	5 days	100%
Internal forms requesting details of Pensioner Payments	68	5 days	100%
Opting In to LGPS	21	5 days	100%
Opting Out of LGPS	75	5 days	100%
Pension Payment queries including tax issues	143	5 days	100%
Refunds Enquiry	50	5 days	100%

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Retiral Enquiry	325	5 days	100%
Service Breaks	9	5 days	100%
Transfer In Enquiry	53	5 days	100%
Transfer Out Enquiry	23	5 days	100%
Total	2,236		

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	See below
Benefit Statements	by end of August	14 th August 2019

The sixth liaison meeting with all Admitted and Scheduled Bodies was scheduled for March 2020. However, this was not held due to the COVID-19 situation. Going forward we will review the employer communications and if circumstances allow continue to hold the liaison meeting towards the end of the financial year either as a physical or virtual meeting where we will discuss up-coming legislative changes and requirements for year end processing.

Key Administration Tasks

Task	Total received
New entrants	764
Early leavers	432
Retirements	217
Deaths in service	7
Deaths in deferment	5
Deaths in retirement	108
New Widows(ers), Child Pensions	46
Estimates	911
Pension credit members	-

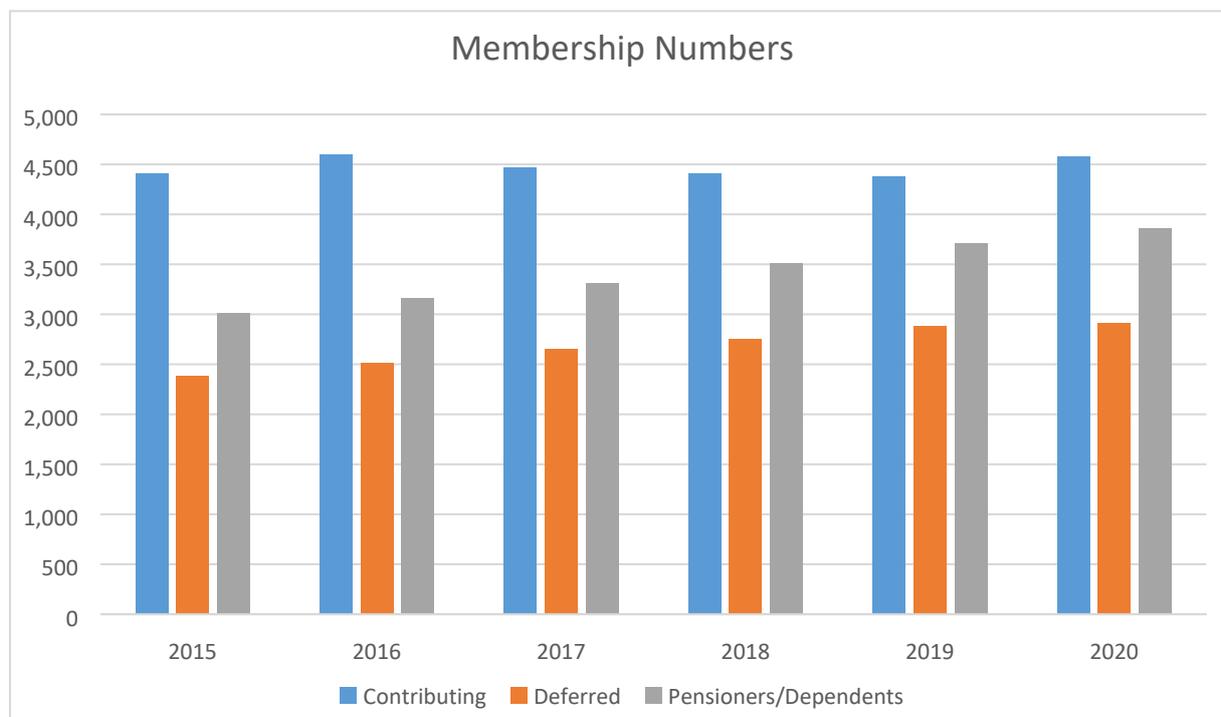
MEMBERSHIP

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

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Teachers are not included as they are enrolled as members of schemes managed and administered by the Scottish Public Pension Agency.

The current membership of the Fund is 11,338, of which 4,573 are actively contributing and 3,856 are in receipt of their benefits. The table over provides a summary of the trends in membership:



There are 17 employer organisations with the Fund including the Council itself, membership by employer is analysed in the table below.

Membership Details as at 31 March 2020	Number of Contributors	Pensioners	Deferred Pensioners	Total
Scheduled Bodies:				
Scottish Borders Council	4,118	3,567	2,643	10,328
Borders College	191	77	77	345
Visit Scotland (Scottish Borders)	1	7	8	16
	4,310	3,651	2,728	10,689
Admitted Bodies with Contributing Members				
Scottish Borders Housing Association	73	99	75	247
LIVE Borders	144	50	66	260
Jedburgh Leisure Facilities Trust	2	2	-	4
L&B Community Justice Authority	-	2	7	9
Amey Community Limited (TUPEE Staff only)	4	6	4	14

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CGI (TUPEE Staff only)	31	6	8	45
South of Scotland Enterprise	9	-	-	9
	263	165	160	588
Admitted Bodies with No Active Contributing Members:				
Gala Youth Project	-	2	-	2
Scottish Borders Careers	-	2	2	4
BC Consultants	-	15	15	30
Others	-	21	4	25
	-	40	21	61
Total	4,573	3,856	2,909	11,338

COMMUNICATION POLICY AND PERFORMANCE

COMMUNICATION POLICY

The Fund approved the current Communications Policy on 30 November 2018. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is: -

- Delivered in a timely efficient and effective manner
- Provides relevant content to the audience, with a clear purpose and message
- Well written, avoiding being of a technical nature wherever possible based on the differing needs of the stakeholders
- Becoming increasingly digital.

The objective of this policy is to ensure that: -

- Pension regulations and the policies of the Fund are communicated in a clear and informative manner
- Benefits of the scheme are promoted to ensure this is recognised as an integral part of the employee reward package
- Information is provided in the most appropriate manner to allow scheme members to make more informed decisions relating to their pensions
- Communication methods are continually evaluated, assessed and redesigned where necessary to ensure continuing effectiveness

The communication methods utilized are:-

Fund website to provide information to as many stakeholders as possible at a time that suits them we provide access to the following: -

- Scheme policies
- Scheme benefits
- Contact details
- Links to other useful sites

Scottish Borders Council Website for Pension Committee and Local Pension Board agendas and minutes can be found on the main Council website, www.scotborders.gov.uk The Fund uses both surface and e-mail to send and receive general correspondence. Roadshows and presentations are available to employer workplaces and attend roadshows, seminars, induction

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and pre-retirement presentations on request, a minimum period of four weeks' notice will be required to allow for appropriate preparations. Scheme members can arrange to visit our offices to speak to a member of our Pensions Administration Team, they can arrange to pre-book appointments by e-mail or telephone.

The introduction of the Pension Fund website in June 2018 has allowed members to access information and documents. The table below details the number of visits to the site since it was launched. The scheme website can be found at www.scottishborderscouncilpensionfund.org



COMMUNICATION PERFORMANCE

The following communications took place during 2019/20

- The Employer Liaison meeting was not held due to the COVID-19 situation. In place of the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years' payroll.
- In response to the COVID-19 situation additional information was posted within the Scottish Borders Council Pension Fund website, this included the following: -
 - Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
 - Information regarding Pensions Increase
 - COVID-19 Pension Fund Update with a link to the Local Government Association FAQ's for LGPS members
 - 6,760 Benefits statements and newsletter issued.

FUNDING STRATEGY STATEMENT

The Local Government Pension Scheme regulations require each administer authority to publish and maintain a Funding Strategy Statement.

The purpose of the Funding Strategy Statement is:

- To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- To take a prudent longer-tem view of funding the liabilities

These objectives are desirable individually but may be mutually conflicting. The Statement sets out how the administering authority balances the potentially conflicting aims of affordability and stability of contributions, transparency of processes, and prudence in the funding basis.

The latest Funding Strategy Statement (FSS) was approved by the Pension Fund Committee on 13 June 2019 and a copy of this document can be found at [Funding Strategy Statement](#). Key elements of the Funding Strategy Statement are the Funding Objective and Funding Strategy for the Pension Fund, an extract of these are included below.

Funding Objectives (Section 1, page 2 of FSS)

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;
- build up the required assets in such a way that produces levels of employer contributions that are as stable as possible, with consideration of the long-term cost efficiency objective;
- ensure effective and efficient management of employers' liabilities; and
- allow the return from investments to be maximized within reasonable risk parameters.

Funding Strategy (Section 5, page 5 of FSS)

The Funding Strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

- A funding level of 100%, as assessed by the Fund's appointed Actuary, triennially, in accordance with the Regulations;
- Ensuring the solvency of the Fund and the long-term cost efficiency of the Scheme; and
- As stable an employer contribution rate as is practical.

ACTUARIAL STATEMENT

The Local Government Pension Scheme regulations require each administering authority to obtain an Actuarial Valuation of the assets and liabilities of the Fund every three years. The last valuation was at 31 March 2017 and the next one is currently in progress for 31 March 2020. The regulations require each administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out their Funding Strategy.

In completing the valuation the Actuary must have regard to the current version of the administering authority's Funding Strategy statement.

The Actuarial Valuation is essentially a measurement of the Fund's liabilities and assets. The Funding Strategy deals with how the liabilities will be managed. In practice, review of the Funding Strategy Statement and completion of the Actuarial Valuation are carried out in tandem to ensure that measurement and management processes are cohesive.

Triennial Valuation 2017

The Triennial Funding Valuation as at the 31 March 2017 was undertaken during 2017 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Board on 14 June 2018. The valuation was undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2014. A copy of the report is available via the Council's committee papers website [Pension Fund/Board Committee papers](#)

The outcome of the 2017 Valuation was a funding level of 114% an improvement in the position assessed at 2014 of 101%. The funding position equates to a surplus of over £80m and the advice of the Actuary is that this surplus be used over time to offset increases in the primary employer's contribution rate of 20.6%. As a result there was no change in the overall Fund common pool employer contribution rate which remained at 18%, although some individual employer rates did change for specific circumstances. The next valuation is currently in progress for the Fund as at 31st March 2020.

	Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2011 £m	2014 £m	2017 £m
Value of the Scheme Liabilities	(402.2)	(487.6)	(573.3)
Smoothed Asset Value	384.8	490.5	653.9
Surplus/ (Deficit)	(17.4)	2.9	80.6
Funding Level	96%	101%	114%

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Note 19 to the Statement of Accounts on page 74, contains details of the outcome and assumptions used in the 2017 Valuation and the impact that it had on employer contribution rates.

A major contributing factor to the improvement in the funding level has been the strong investment performance that the Fund has achieved over the past three years.

Employer Contribution Rates

As part of the 2017 Actuarial Valuation, the Actuary certified the primary rate at 20.6%. However in agreement with the Actuary a secondary rate of 2.6% has been deducted to allow the common rate of contribution as 18% of payroll for the next three years. The secondary rate will reduce the surplus of £80.6m over 53 years.

Individual and pooled employers' rates vary from the common contribution rate (18.0%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e. the rate which employers in the Fund pay):

Employers Contribution Grouping	Employers Contribution Rate	
	2018/19	2019/20
Scottish Borders Council Common Pool	18.0%	18.0%
Leisure Trusts Common Pool*	15.5%	-
Scottish Borders Housing Association – Individual	19.0%	20.3%
CGI	19.8%	21.1%
South of Scotland Enterprise	-	20.6%

* The Leisure Trust Common Pool rate was made up with BSLT and Jedburgh Leisure Trust. The amalgamation of BSLT and the Council's cultural services into LIVE Borders in 2016, resulted in LIVE Borders revised rate of 18%. Following the 2017 valuation Jedburgh Leisure Trust also returned to the Common Pool. This leaves SBHA and CGI out with the Common Pool due to their closed status.

Valuation for Statutory Accounts at 31 March 2020

Note 20 to the Statement of Accounts on page 75, contains the present Actuarial Valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £174m. However, the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the Fund. The full version of the Actuary report and the current Funding Strategy is available via the Pension Fund website: [Pension Fund](#)

STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SIP) is the Funds' investment policy document and is reviewed regularly. The SIP is updated to reflect any changes agreed by the Pension Fund Committee, the latest approved document, approved on 22 June 2020, can be found at [Statement of Investment Principles](#).

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) which 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
- 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.

The Pension Fund Committee is responsible for making decisions in relation to the SIP and approving any decisions in relation to any changes to fund managers, investment advisers and custodian. The Pension Fund Investment and Performance Sub-Committee reviews the SIP and monitors the performance of managers. The Sub-Committee makes recommendations to the Pension Fund Committee in relation to these areas.

The key objectives of the Fund which form key considerations when agreeing the SIP are:-

- Build up assets to produce levels of employer contributions
- Seek to maintain a positive ratio of assets to liabilities for the Fund
- Produce long term investment returns in line with Triennial Valuation assumptions.

The 2017 Triennial Valuation reported a funding position of 114% with investment returns targeted at 5% per annum.

These objectives are reflected in the underlying investment principles, which are considered in the development and agreement of the Fund's Investment Strategy. The key principles are shown below:

- **Long term perspective** – by the nature of the Fund's liabilities and employers, the Fund is able to take a long-term view and position its Investment Strategy on this basis.
- **Diversification** – the Fund seeks to diversify its investments in order to benefit from a variety of return patterns and to manage risk.
- **Maturing nature** – the contributions received are less than the benefits currently paid to pensioners meaning the Fund is a maturing Fund. Income generation is therefore required.
- **Stewardship** – the Fund is a responsible investor and adopts policies and practices which acknowledge the importance of environmental, social and governance (ESG) issues.

INVESTMENT STRATEGY

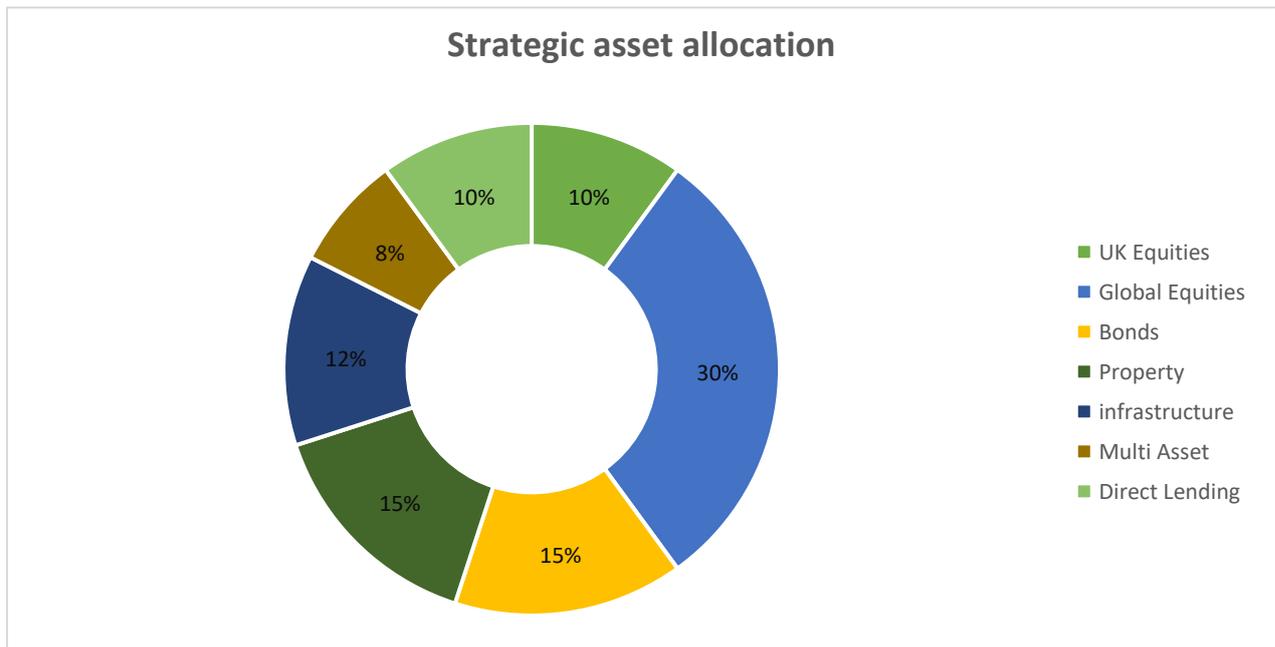
The Fund's investment objective is to support the Funding Strategy by adopting an Investment strategy and structure, which incorporates an appropriate balance between risk and return.

Following the 2014 Triennial Valuation, which showed the Fund at 101% funded, the Fund looked to increase diversification from volatile equity markets and to spread the risk across an increased number of managers. The following valuation in 2017 showed the Fund at 114% funded.

In common with many other Local Government Pension Schemes funds, the valuation showed:

- Pensioner and deferred liabilities outweigh active member liabilities and;
- Cash-flow contributions from members was lower than benefits paid to pensions, moving the Fund into a net outflow.

Using the asset liability model, which assess risk/return against liabilities as the basis for modelling a revised Investment Strategy was approved in September 2018. The diagram below shows the approved strategic asset allocation.



The strategic asset allocation approved, reduced the allocation for equities and increased allocation to infrastructure. These changes were made to increase the alignment of investments with liabilities and to increase the income generating investments to ensure funds available to pay liabilities as they become due. The reduction in equities also reduced the level of risk exposure to equity markets.

The strategic asset allocation also diversifies the risk exposure in its use of managers. The Fund currently has nine Fund Managers over 14 funds; excluding Infrastructure. Shown over are the current Fund Managers:



BLACKROCK



Morgan Stanley



The Funds infrastructure investment is split over two areas of infrastructure debt with Macquarie and a portfolio of investments developed in collaboration with Lothian Pension Fund. The Fund Managers for these are shown below:



KKR



The implementation of the Investment Strategy commenced in December 2018 with the appointment of Macquarie for infrastructure debt and a reduction of equity managers. Due to the nature of the new investments, progress has been gradual as investment opportunities arise and appointed Fund Managers draw down funds. The table below shows the position as at 31 March 2020 against the Strategy:

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Asset Class	Asset Allocation at 31/3/19 %	Asset Allocation at 31/3/20 %	Strategic Benchmark %
UK Equity	14.4	10.4	10.0
Global Equity	33.9	33.2	30.0
Bonds	21.2	18.9	15.0
Alternatives	13.5	14.3	17.5
Property	13.5	13.8	15.0
Infrastructure	2.9	8.2	12.5
Cash	0.6	1.2	0.0
Total	100.0	100.0	100.0

Investment Manager Allocation

Each external Investment Manager is appointed to manage a specified % allocation of total fund investment assets. The breakdown of the Fund's assets by Investment Manager, mandate type and asset class at 31 March 2020 and 31 March 2019 are show in the table below

Manager	Mandate Type	31 Mar 2020 (%)	31 Mar 2019 (%)
UBS	Pooled Fund -UK Equities	6.2	9.2
Baillie Gifford	UK Equities	4.2	5.2
Baillie Gifford	Global Equities	19.3	20.2
Morgan Stanley	Pooled Fund - Global Equities	13.9	13.6
M&G	Pooled Fund - Diversified Income	12.9	15.0
M&G	Pooled Fund - Bonds	5.9	6.2
UBS	Pooled Fund -Property	5.4	5.2
Blackrock	Pooled Fund – Property	8.4	8.2
LGT	Pooled Fund - Alternatives	7.1	7.0
Partners Group	Pooled Fund – Private Credit	3.3	2.7

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Permira	Pooled Fund – Private Credit	3.9	3.8
KKR	Infrastructure	0.4	0.3
Infrared	Infrastructure	0.2	0.2
Dalmore	Infrastructure	1.6	0.9
Brookfield	Infrastructure	0.2	0.2
Macquarie	Infrastructure	0.2	-
Equitix	Infrastructure	0.2	-
Allinda	Infrastructure	0.4	
Gaia LP	Infrastructure	0.4	-
Oaktree	Infrastructure	0.2	-
Macquarie	Pooled Fund -Infrastructure Debt	4.5	1.5
Internal	Internally Managed Cash & Investments	1.2	0.6

Holdings

The table below shows the top 20 direct holdings at 31 March 2020. All holdings are held with the Baillie Gifford Global and UK equities portfolios.

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential	6.8	Alphabet Inc	3.0
Naspers	5.7	Visa Inc	2.9
Amazon	4.9	Apache Corp	2.6
ADR Alibaba Group	4.7	Ping An Insurance Group	2.6
Anthem Inc Com	3.9	SAP SE	2.5
ADR ICICI BK Ltd	3.5	Pernod Ricard NPV	2.5
AIA Group Ltd	3.4	BCO Bradesco	2.0
Moodys	3.3	CRH PLC	2.0

Mastercard	3.3	Thermo Fisher Corp	1.9
BHPGroup PLC	3.1	Waters Corp	1.9

INVESTMENT PERFORMANCE

MARKET CONTEXT

Equity markets started the year in Q2 with a volatile period, due to heightened tensions due to a trade war between US and China. Valuations however rebounded in June in the wake of US and European central banks indicating a continuation of accommodative monetary policies. Q3 continued on from Q2 with volatility during the period as the trade war continued. Due to decline in geopolitical risks during Q4, equity markets saw real gains in all regions. A 0.25% interest rate reduction by the Federal Reserve also assisted with the growth. The gains however were erased in Q1 2020 as COVID-19 significantly impacted most economies, leading to a sharp sell-off in equity markets across the globe. UK and European equities suffered particularly sharp falls as European countries became some of the most severely impacted regions.

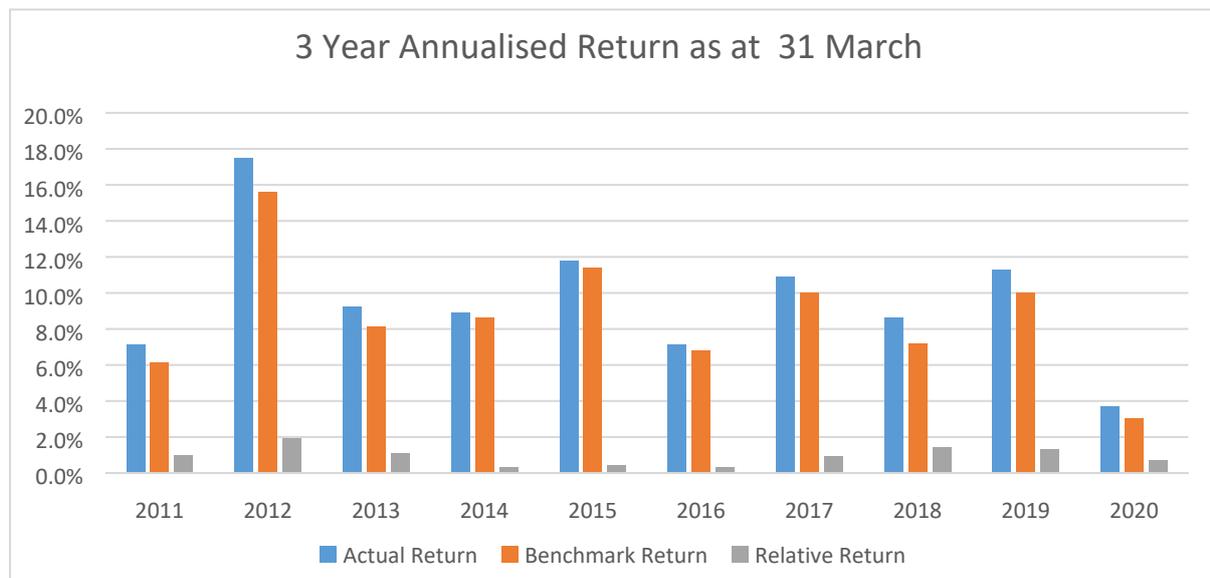
Real assets such as long lease property and infrastructure had a positive if slow performance in Q2 2019 with many deals delayed due to uncertainty around BREXIT. The following two quarters followed a similar pattern with positive returns. Q1 2020 saw a small reduction in valuations due to COVID-19 with some funds suspending trading. The full effect of COVID-19 is not yet fully known although initial data indicates that valuation impacts will be sector specific with some areas such as healthcare, industrial and supermarkets being more resilient.

Credit markets started the year strongly, delivering positive returns as central banks considered stepping away from the removal of accommodative monetary policies. COVID-19 resulted in widespread sell off during Q1 2020 with investors exhibiting “flight to quality” behaviour. The drop in oil prices due to the price war tensions between OPEC and Russia also contributed to the drop.

FUND PERFORMANCE

The Fund overall, during this historic period of volatility and unprecedented economic disruption caused by COVID-19, has due to its diversified balance of investments, managed to maintain most of the previous strong returns from previous years. The table below shows the rolling three year annualised relative return (i.e. Funds' return achieved compared with the benchmark) for the last 10 years.

Rolling 3 year annualised performance



Each quarter, the Investment Consultants, Isio (previously KPMG), reported on the Fund's quarterly performance by individual Investment Manager and mandate to the Joint Pension Fund Committee, and Pension Board. The Investment and Performance Sub Committee also met each Manager during the year giving Committee Members an opportunity to gain a deeper understanding of the investments, their decision making processes and their performance.

The Fund achieved a negative return of -1.7% against a benchmark of -1.9%.

The table over provides an analysis of how the Fund's investments performed against the Fund's benchmark.

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Return on Investment as at 31/3/2020	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund	-1.7	-1.9	3.7	3.0
Global Equities	0.8	-5.1	6.4	3.1
UK Equities	-18.2	-18.2	-3.6	-4.1
Bonds	-1.8	3.4	1.2	3.6
Alternatives	1.4	5.0	2.9	4.7
Property	1.5	3.3	5.5	5.6
Cash	-	-	-	-

As shown in the table above the diversification of the Fund has ensured the full impact of the COVID-19 crises was not fully felt. UK Equities has seen the largest drop in valuations, fortunately only 10.4% of the Fund are invested in this group.



RESPONSIBLE INVESTMENT

Scottish Borders Council Pension Fund's (SBCPF) overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role the Fund believes that a positive approach to Environmental, Social and Corporate Governance (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 Trustee fiduciary duty, it is imperative that we act 'prudently, responsibly and honestly' and therefore consider both short term and long-term risks when making investment decisions.

The Fund approved a Statement of Responsible Investment Policy on 30 November 2018 setting out the approach to responsible investment and arrangements to monitoring manager performance against the principles of the policy on an annual basis. The key principles within the policy are:

- All new managers adhere to and report on the United Nations Principles for Responsible Investment (UNPRI) Code & Stewardship Code, Managers will be expected to use ESG factors as a tool for gathering information to improve decision making, thereby managing risks.
- The Fund minimises any harm to the environment and society, whilst ensuring it builds up a portfolio of assets that are best placed to meet its future liabilities.
- The Fund wishes to see its environmental footprint minimised, its social responsibilities maximised and the highest standards of employee relations and corporate governance maintained.
- The Fund requires its 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.

The Fund actively engages with managers to ensure they are meeting these key principles and is incorporating ESG considerations into their investment decisions.

The Responsible Investment Policy also requires the Fund to review and report on an annual basis the performance of Managers. The first monitoring report was presented and approved by the Pension Fund Committee on 12 September 2019. The key highlights of this report are as follows:

- 11 out of 12 Managers are signatories of UNPIR representing 99.8% of the Fund.
- PRI annual assessment scored 9 out of 12 Managers as higher than median.
- Internal scoring methodology scored 94.6%; of the funds managed by managers, scored 80% or more than the total available scores.

For managers scoring less than 80% in the internal scoring methodology additional monitoring and engagement was undertaken.



Climate Change is a global challenge, which will have a significant impact on the global economy, corporations and society as a whole. The Paris Agreement of the United Nations Framework Convention on Climate Change set three main aims:

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change;

- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.



The Pension Fund as part of its responsible investment policy has become a signatory to Climate Action 100+ which was launched in December 2017 with the support of 225 investors representing \$26.3 trillion of assets. It now has 450 investors with assets of \$40 trillion under management. Scottish Borders Council Pension Fund became a signatory to this in March 2020.

As a signatory the Fund gives it support to the Climate Action 100+ in its engagement with boards and senior management of companies to:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities;
- Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goals of limiting global average temperature increase to well below 2°C above pre-industrial levels;
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enable investors to assess the robustness of companies' business plans against a range of climate and improve investment decision making.

SECTION 3

FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITIES

COUNCILS RESPONSIBILITIES

Scottish Borders Council as the administering authority for Scottish Borders Council Pension Fund is required to:

- Make arrangements for the proper administration of Scottish Borders Council Pension Fund's financial affairs and to ensure that the proper officer of the authority has responsibility for the administration of those affairs in relation to Scottish Borders Council Pension Fund. That officer is the Executive Director Finance and Regulatory.
- Manage the affairs of Scottish Borders Council Pension Fund to secure the economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far as is compatible with that legislation, in accordance with proper accounting practices (Section 12 of the Local Government in Scotland Act 2003).
- Approve Scottish Borders Council Pension Fund Annual Accounts for signature.

EXECUTIVE DIRECTOR FINANCE & REGULATORY RESPONSIBILITIES

The Executive Director Finance and Regulatory is responsible for the preparation of Scottish Borders Council Pension Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)

In preparing the Annual Accounts, the Executive Director Finance and Regulatory has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with legislation, and
- Complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Executive Director Finance & Regulatory has also:

- Kept adequate, up to date accounting records.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of Scottish Borders Council Pension Fund as at 31 March 2020 and the transactions of the Fund for the year then ended.



David Parker
Chairman Pension Fund Committee
Scottish Borders Council



David Robertson
Executive Director Finance and Regulatory
Scottish Borders Council

5th November 2020

FUND ACCOUNT for year ending 31 March 2020

2018/19 £'000		2019/20 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
19,385	Contributions	19,830	7
1,262	Transfers in from other pension funds	1,370	8
20,647		21,200	
(22,794)	Benefits	(23,635)	9
(1,463)	Payments To And On Account Of Leavers	(2,920)	10
(24,257)		(26,555)	
(3,610)	Net Additions/(Withdrawals) from Dealings with Members	(5,355)	
(6,528)	Management expenses	(5,922)	11
	Return on Investments:		
13,314	Investment Income	13,938	12
45,423	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	(22,587)	14
(283)	Taxes on Income	(115)	
58,454	Net Return on Investments	(8,764)	
48,316	Net Increase/(Decrease) in the Fund during the Year	(20,041)	
684,583	Opening Net Assets of the Scheme	732,899	
732,899	Closing Net Assets of the Scheme	712,858	

The Fund Account shows the payments to pensioners, contribution receipts from employers and scheme members, and the income, expenditure and change in market value of the Fund's investments.

NET ASSET STATEMENT as at 31 March 2020

2018/19 £'000		2019/20 £'000	Notes
731,048	Investment Assets	713,000	14
-	Investment Liabilities	(681)	14
731,048	Total net investment	712,319	
	Current Assets & Liabilities		
3,246	Current Assets	2,487	21
(1,395)	Current Liabilities	(1,948)	22
1,851		539	
732,899	Net Assets of the Fund available to fund benefits at the period end	712,858	

The Net Assets Statement represents the value of assets and liabilities as at 31 March (excluding liability to pay pensioners).

The unaudited accounts were issued on 30 June 2020 and the audited accounts were authorised for issue on 5 November



David Robertson CPFA
Executive Director Finance and Regulatory

5th November 2020

NOTES TO THE ACCOUNTS

1 DESCRIPTION OF THE FUND

A) General

The Scottish Borders Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council.

The LGPS scheme is governed by the Public Service Pensions Act 2013. The Fund is administered by the Council in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended).
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014.
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016.
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

It is a contributory defined benefit pension scheme administered by Scottish Borders Council to provide pensions and other benefits for pensionable employees of Scottish Borders Council and a range of other scheduled and admitted bodies within the Scottish Borders area.

Organisations participating in the Fund include:

- Scheduled Bodies – which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted Bodies – which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

B) Funding

Pensions and other benefits are funded by contributions from employees, employers and investment earnings.

The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions. For 2019/20 this was based on the valuation undertaken as at the 31 March 2017, as amended by specific changes, agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2019/20 ranged from 18% to 19.8%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2020. From 1 April 2015 these contributions are based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.

C) Benefits

The Local Government Pension Scheme is a defined benefit scheme. From 1st April 2015 benefits are accrued at a rate of 1/49th of pensionable pay on a career average basis. Prior to that date benefits were accrued on a final salary basis. These benefits are fully protected on the basis under which they were accrued.

The table below gives a summary of the scheme benefits:

Membership up to 31 March 2009		Membership from 1 April 2009 to 31 March 2015		Membership from 1 April 2015
Annual pension = (service years/days x final pay)/80	+	Annual pension = (service years/days x final pay)/60	+	Annual pension = Pensionable pay each year /49 (half that if in 50/50 section)
+		+		+
Automatic lump sum of 3 x annual pension.		No automatic tax free lump sum but can convert pension.		No automatic tax free lump sum but can convert pension.
+		+		+
<ul style="list-style-type: none"> Annual revaluation and pensions increase in line with CPI inflation Partners and dependents pensions Ill health protection Death in service protection 				

Further details can be found on the Scottish Borders Council Pension Fund website.

All benefits are paid in accordance with the Local Government Pension Scheme regulations.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2019/20 financial year and its position as at the 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the *Local Government Pension Scheme Fund Accounts 2018/19 - example accounts and disclosure checklist* published by the Chartered Institute of Public Finance Accountants (CIPFA).

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. Local authorities responsible for administering a Pension Fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2014 to publish a Pension Fund Annual Report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

The accounts have been prepared on a going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

In accordance with the Code, the Fund's Financial Statements are generally prepared on an accruals basis. The Net Assets Statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits from and to other schemes are treated on a cash basis.

Contributions Income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employers augmented contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amounts in respect of strain on the Fund due in a year but unpaid are classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

Investment Income

i) Interest income

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administration Expenses

All administration expenses are accounted for on an accruals basis. Central Support Costs from Scottish Borders Council have been recharged to the Fund on the basis of time spent by staff on the service. The recharge includes overheads apportioned to this activity.

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates or subscription agreements governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Management fees also include transaction costs incurred by the managers.

Investment management expenses incurred by funds in the UK have come under increasing scrutiny in recent years resulting in establishment of the Cost Transparency Initiative (CTI) and the launch of collection templates in 2019. All managers of the Fund have submitted their investment expenses information on the new template which will ensure consistency of reporting.

Net Assets Statement

Valuation of Investments

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the close of business on 31 March.

- Unquoted investments – directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Pooled investment vehicles – are valued at bid price on the close of business on 31 March.
- Private equity/debt and infrastructure assets are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

The processes of the fund managers, who are listed in Note 14c, (page 62) are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts market values of overseas investments.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks (in particular currency) arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of the derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the outstanding contracts were matched at the year-end with an equal and opposite contract.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of change in value.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme Actuary in accordance with the requirements of International Accounting Standards (IAS) 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20, page 75).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life to act as AVC provider. AVCs are paid to the AVC provider by employees and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and investment Funds) (Scotland) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 23).

Accounting Standards that were issued but not yet adopted.

There are no accounting standards which have not yet been adopted.

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed Actuary (currently Hymans Robertson), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised on page 74. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION AND UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions take into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the financial statements at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 20, page 75).	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund	The effects on the net pension liability of changes in individual assumptions can be measured. - A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.2m

	assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	<ul style="list-style-type: none"> - A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £8.1m - A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1.7m, and - A 0.25% increase in assumed life expectancy would increase the liability by £3.9m <p style="text-align: right;"><i>Source – Triennial Valuation 2017</i></p>
Portfolio of Level 3 assets held	Level 3 assets are those which do not have observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. There is, however a degree of estimation involved in the valuations.	The total assets held in Level 3 £226.3m and include Private Credit, Property, Infrastructure and Alternatives. There is a risk that this investment may be under or overstated in the accounts. Based on historical data and current market trends actual valuation could be between £241.8m and £210.8m

COVID 19 – Property

Property investments for Blackrock and UBS portfolio valuations both include a “material valuation uncertainty clause”. The response to COVID-19 meant the property sector were faced with an unprecedented set of circumstances on which to base a judgement. As at the valuation date, managers considered that less weight could be given to previous market evidence for comparison purposes to inform opinions of value. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

6 EVENTS AFTER THE REPORTING DATE

There are no known events since 31 March 2020 which directly affect these accounts.

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7 CONTRIBUTIONS RECEIVABLE

2018/19				2019/20		
Employers	Members	Total		Employers	Members	Total
£'000	£'000	£'000		£'000	£'000	£'000
14,348	4,601	18,949	Normal	14,889	4,845	19,734
406	-	406	Special/Pension Fund Strain	81	-	81
	30	30	Additional Voluntary	-	15	15
14,754	4,631	19,385	Total	14,970	4,860	19,830

2018/19		2019/20
£'000		£'000
14,121	Administering Authority	15,532
738	Scheduled Bodies	856
4,526	Admitted Bodies	3,442
19,385		19,830

8 TRANSFERS IN

There were no group transfers in to the scheme during 2019/20 or 2018/19 and the total of £1.370m (2018/19: £1.262m) represents the total of transfer values in respect of individual members joining the scheme.

9 BENEFITS PAYABLE

2018/19		2019/20
£'000		£'000
17,967	Pension Payments	18,953
3,948	Commutation and lump sum retirement benefits	3,779
879	Lump Sums death benefits	903
22,794		23,635

2018/19		2019/20
£'000		£'000
20,958	Administering Authority	21,465
373	Scheduled Bodies	676
1,463	Admitted Bodies	1,494
22,794		23,635

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19		2019/20
£'000		£'000
110	Refunds to members leaving service	74
1,353	Individual Transfers	2,846
1,463		2,920

11 MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
391	Administrative costs	363
5,848	Investment management expenses	5,296
289	Oversight and governance costs	263
6,528	Total	5,922

11(a) Investment Management Expenses

2018/19		2019/20
£'000		£'000
4,149	Management Fees	3,819
102	Performance Related Fees	-
48	Custody Costs	91
1,063	Transaction Costs	1,003
486	Other Fees	383
5,848	Total	5,296

12 INVESTMENT INCOME

2018/19		2019/20
£'000		£'000
4,595	Dividends from equities	3,356
3,642	Income from Pooled Investment vehicles	5,527
4,824	Income from Pooled Property Investment vehicles	4,902
253	Interest on Cash Deposits	153
13,314		13,938

13 OTHER FUND ACCOUNT DISCLOSURES

13(a) External Audit Costs

In 2019/20 the agreed audit fee for the year was £21,040 (2018/19 £20,580). The external auditor is Audit Scotland.

14 INVESTMENTS

Market Value at 31 March 2019 £'000		Market Value at 31 March 2020 £'000
	Investment Assets	
181,533	Equities	164,635
371,951	Pooled Investments	329,466
98,428	Pooled Property Investments	97,461
21,450	Private Equity/Infrastructure	58,458
51,678	Diversified Alternatives	50,583
-	Derivative Contracts	-
4,619	Cash Deposits	11,021
1,357	Investment Income Due	1,151
32	Amounts receivable for sales	225
731,048	Total Investment Assets	713,000
	Investment Liabilities	
-	Amounts payable for purchases	(681)
731,048	Net Investment Assets	712,319

Alternative asset portfolio at 31 March 2020

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £50.5m at 31 March 2020, is allocated to the following asset classes: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities, Infrastructure and Private Equity.

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14(a) Reconciliation of Movement in Investment and Derivatives

The table below follows the guidance of the standard presentation for the movement in investments.

	Opening Market Value	Purchases & Derivative Payments	Sales & Derivative Receipts	Change to Market value during year	Closing Market Value
	£'000	£'000	£'000	£'000	£'000
Equities	181,533	25,307	(32,311)	(9,894)	164,635
Pooled Investments	371,951	11,373	(44,769)	(9,089)	329,466
Pooled Property Investments	98,428	7,117	(5,829)	(2,255)	97,461
Private Equity/Infrastructure	21,450	40,412	(2,581)	(823)	58,458
Diversified Alternatives	51,678	-	(418)	(677)	50,583
Derivative Contracts	-	2	(2)	-	-
	725,040	84,211	(85,910)	(22,738)	700,603
Other Investment Balances					
Cash Deposits	4,619			146	11,021
Amount receivable for sales	32			(2)	225
Investment Income due	1357			-	1,151
Spot FX Contract				6	-
Amount Payable on Purchase	-			1	(681)
Net Investments	731,048			(22,587)	712,319

Significant Transactions during the year:

The Fund continued to implement the Investment Strategy approved on 13 September 2018. Equity funds have been reduced and invested into inflation linked assets such as Infrastructure and Private Credit.

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Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2020. Each of the investments comprises units in a managed fund.

Value as at 31 March 2020	£'000
Morgan Stanley Global Brands Fund	98,718
M&G Alpha Opportunities Fund	92,086
Blackrock – Long Lease Property	59,880
LGT Crown SBC Segregated Portfolio	50,584
UBS UK Passive Equities	44,037
M&G Index Linked	42,303
UBS Property	38,475

14(b) Analysis of Investments

31 March 2019 £'000		31 March 2020 £'000
	Equities	
	UK	
43,888	Quoted	32,160
	Overseas	
137,607	Quoted	132,447
181,495		164,607
	Pooled Funds – additional analysis - Unquoted	
	UK	
45,549	Fixed Income Unit Trust	42,304
68,940	Equity Unit Trust	45,129
	Overseas	
99,850	Equity Unit Trust	98,746
110,038	Hedge Funds	92,085
	UK & Overseas	
51,678	Diversified Alternatives	50,583
47,611	Private Credit Funds	51,230
423,666		380,078
	Pooled Property Investments	
88,408	UK Pooled Property Investments	97,461
10,020	Overseas Pooled Property Investments	-

**Scottish Borders Council Pension Fund
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98,428		97,461
	Private Equity/Infrastructure	
18,999	UK Venture Capital	49,950
2,451	Overseas Venture Capital	8,508
21,450		58,458
	Investment Assets	
-	Derivative assets	-
4,619	Cash	11,021
1,357	Investment income due	1,151
32	Amounts receivable from sales	225
731,048	Total Investment Assets	713,000
	Investment Liabilities	
-	Derivative liabilities	-
-	Amounts payable on purchase	(681)
-	Total Investment liabilities	-
731,048	Net Investment Assets	712,319

14(c) Investment Analysed by Fund Managers

Investment Management was undertaken on behalf of the Fund during the financial year by 13 firms of investment managers, these are shown below. The Fund has also during 2019/2020, continued to make investments into infrastructure via collaborative working with Lothian Pension Fund. As at 31 March 2020 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-19						31-Mar-20	
£'000	%			£'000	%		
67,559	9.2	UBS	Pooled Fund -UK Equities	44,037	6.2		
38,060	5.2	Baillie Gifford	UK Equities	29,683	4.2		
148,348	20.2	Baillie Gifford	Global Equities	137,839	19.4		
99,850	13.6	Morgan Stanley	Pooled Fund - Global Equities	98,719	13.9		
110,038	15.0	M&G	Pooled Fund - Diversified Income	92,086	12.9		
45,512	6.2	M&G	Pooled Fund - Bonds	42,304	5.9		

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38,463	5.2	UBS	Pooled Fund -Property	38,475	5.4
60,629	8.2	Blackrock	Pooled Fund – Property	59,880	8.4
51,678	7.0	LGT	Pooled Fund - Alternatives	50,583	7.1
19,867	2.7	Partners Group	Pooled Fund – Private Credit	23,494	3.3
27,745	3.8	Permira	Pooled Fund – Private Credit	27,736	3.9
		Alinda	Infrastructure	2,755	0.4
2,407	0.3	KKR	Infrastructure	3,065	0.4
1,646	0.2	Infrared	Infrastructure	1,329	0.2
6,676	0.9	Dalmore	Infrastructure	11,236	1.6
1,522	0.2	Brookfield	Infrastructure	1,340	0.2
		Macquarie	Infrastructure	1,100	0.1
		Equitix	Infrastructure	1,500	0.2
		Gaia	Infrastructure	2,474	0.4
		Oaktree	Infrastructure	1,612	0.2
9,199	1.5	Macquarie	Pooled Fund -Infrastructure Debt	32,047	4.5
1,849	0.6	Internal	Internally Managed Cash & Investments	9,025	1.3
731,048				712,319	

The benchmarks and performance targets for each manager as at the 31 March 2020 are contained in the Statement of Investment Principles published on the Pension Fund website.

Fund Performance

The total Fund return for the year was -1.7% with a relative return over benchmark of -1.6%. Over three years the Fund has generated an annualised return of 3.8% per annum, with a relative return over benchmark of 3.0% per annum. Further information on this is contained in- Investments page 39.

14 (d) Stock Lending

The Fund may participate in the stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2020 stock with a market value of £8.1m was on loan.

14(e) Property Holdings

The Fund's investment in its property portfolio comprises of pooled investments with UBS and Blackrock. There are no directly owned properties.

15 ANALYSIS OF DERIVATIVES

The Funds approach to derivatives is to allow individual managers to decide to participate in derivative contracts subject to limits set out in their investment management agreements. The Fund holds cash assets to allow for cash flow purposes. Fund managers will also, on occasions, hold forward currency contracts.

Settlements	Currency Bought	Local Value £000's	Currency Sold	Local Value £000's	Asset Value £000's	Liability Value £000's
Under 1 month	GBP	0				0
Open forward currency contracts at 31 March 2020						0
Net forward currency contracts at 31 March 2020						0
Open forward currency contracts at 31 March 2019						0
Net forward currency contracts at 31 March 2019						0

16 FAIR VALUE BASIS OF VALUATION

Assets and liability valuations are classified into three levels according to quality and reliability of information used to determine fair values.

1. Level 1 - are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities and unit trusts. Prices are quoted at bid prices.
2. Level 2 - are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
3. Level 3 - are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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16(a) Fair Value Hierarchy

Values as at 31 March 2020	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£000's	£000's	£000's
Designated as fair value through fund account	441,838	32,406	226,359	700,603
Loans & receivables	12,172	225	-	12,397
Financial liabilities at fair value through fund account	-	(681)	-	(681)
Net Investment Assets	454,010	31,950	226,359	712,319
Values as at 31 March 2019	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£000's	£000's	£000's
Designated as fair value through fund account	504,489	33,631	186,919	725,039
Loans & receivables	5,977	32	-	6,009
Financial liabilities at fair value through fund account				
Net Investment Assets	510,466	33,663	186,919	731,049

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16(b) Reconciliation of Fair Value Measurements within level 3.

	Market Value 1 April 2019	Transfers into level 3	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses)	Realised gains/ (losses)	Market Value 31 March 2020
	£'000	£'000			£'000	£'000	£'000
Alternatives	51,678	-	-	-	(1,095)	-	50,583
Overseas Equity	2,450	-	5,887	(859)	779	251	8,508
Private Credit	47,611	-	11,489	(6,697)	(1,173)	-	51,230
UK Property	66,181	-	750	-	(843)	-	66,088
Overseas Venture Capital	18,999	-	34,600	(1,722)	(1,895)	(32)	49,950
Total	186,919	-	52,726	(9,278)	(4,227)	219	226,359

Transfers to level 3 reflect the investment into Private Credit following the implementation of the revised Investment Strategy.

Purchases and sales during the year reflect the implementation of the revised Investment Strategy.

Unrealised and realised gains and losses are recognised in the changes in value of investments line of the Fund Account.

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Sensitivity of Assets Valued at Level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£'000	£'000	£'000
Alternatives	7.1%	50,583	54,175	46,990
Overseas Equity	20.5%	8,508	10,252	6,764
Private Credit	3.6%	51,230	53,084	49,375
UK Property	7.2%	66,088	70,866	61,309
Overseas Venture Capital	7.1%	49,950	53,497	46,403
Total		226,359	241,874	210,841

17 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amount of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2019				31 March 2020		
Fair value through profit & loss	Loans & Receivables	Financial Liabilities at amortised cost		Fair value through profit & loss	Loans & Receivables	Financial Liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
181,533	-	-	Equities	164,635		
371,951	-	-	Pooled Investments	329,466		
98,428	-	-	Pooled Property Investments	97,461		

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21,450	-	-	Infrastructure	58,458		
51,678	-	-	Diversified Alternatives	50,583		
-	-	-	Derivative Contract			
-	4,619	-	Cash		11,021	
-	1,357	-	Other Investment balances		1,151	
	32	-	Debtors		225	
725,040	6,008	-		700,603	12,397	-
			Financial Liabilities			
-	-	-	Derivative Contract	-	-	-
-	-	-	Other investment balances	-	-	-
-	-	-	Creditors	-	-	(681)
-	-	-		-	-	-
725,040	6,008	-	Total	700,603	12,397	(681)
	731,048				712,319	

17 (a) Net Gains and Losses on Financial Instruments

31 March 2019		31 March 2020
£000		£000
	Financial assets	
45,103	Designated at fair value through profit & loss	(22,738)
398	Loans & receivables	153
	Financial Liabilities	-
78	Fair value through profit & Loss	-
(156)	Financial liabilities at amortised costs	(2)
45,423	Total	(22,587)

The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

18 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for managing the Fund's risk rests with the Pension Fund Committee. A Risk Register for the Fund has been established to identify and analyse the risks that the Fund faces and the key messages from this process are covered in the Risk Management Statement on page 13. The Market Risk and Credit Risk aspects below come under the risk category of Assets and Investment in the Risk Register, whilst Liquidity Risk is a separate category of risk. In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its Investment Consultants undertake appropriate monitoring of market conditions and benchmark analysis.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund's Investment Strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's independent provider of performance and analytical data it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

Asset Type	Potential Market Movement
	%
UK Equities	20.2
Global Equities	20.5
UK Bonds	10.9
Property	10.0
Alternatives	12.3
Cash	0.8

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

Asset Type	Value as at 31 Mar 20 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	73,717	20.2	88,605	58,832
Global Equities	236,558	20.5	285,052	188,064
UK Bonds	42,304	10.9	46,929	37,678
Property	98,356	10.0	108,148	88,563
Alternatives	252,397	12.3	283,308	221,407
Cash	8,987	0.8	9,098	8,954
Total Assets	712,319		821,140	603,498

*The percentage change for total assets includes the impact of correlation across asset classes.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or

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future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its Investment Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	At 31 March 2019 £'000	At 31 March 2020 £'000
Cash and Cash Equivalents	7,198	13,258
Fixed Interest Securities		-
	7,198	13,258

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Value as at 31 Mar 20 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	13,258	132	(132)

Currency Risk

Currency risk represents the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in equities overseas that are denominated in currencies other than £UK.

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The following table summarises the Fund's currency exposure at 31 March 2020:

Currency exposure by asset type	As 31 March 2020 £'000
Overseas Equities	132,447
Overseas Equity Funds	98,778
Overseas Hedge Funds	92,085
Total	323,310

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with Isio, the likely volatility associated with foreign exchange movements on an individual currency basis is shown on the table below. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket'.

Currency	Value as at 31 Mar 20 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	499	10.73%	552	445
Brazilian Real	1,691	18.20%	1,999	1,383
Canadian Dollar	1,217	9.23%	1,329	1,105
Danish Krone	733	8.42%	795	671
EURO *	26,028	8.45%	28,226	23,830
Hong Kong Dollar	8,935	9.25%	9,761	8,108
Japanese Yen *	13,381	12.42%	15,042	11,719
Norwegian Krone	1,136	11.62%	1,268	1,004
South African Rand	4,118	16.27%	4,789	3,448
Swedish Krona	2,180	9.90%	2,396	1,964
Swiss Franc	2,169	11.21%	2,413	1,926
Taiwan Dollar	176	8.92%	192	161
US Dollar	261,047	9.34%	285,435	236,658
Total Currency *	323,310		354,197	292,422

* The % change for Total Currency includes the impact of correlation across the underlying currencies.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund is separately addressed within the Council's Annual Treasury Strategy and this document sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2020, including current account cash, was £2.2m (31 March 2019: £2.54m). This was held with the following institutions:

	Rating	Balance at 31 March 2019 £'000	Balance at 31 March 2020 £'000
<i>Money Market Accounts</i>			
Aberdeen Standard	AAA	-	-
Standard Life	AAA	-	-
Blackrock	AAA	-	-
Federated	AAA	-	-
<i>Bank Current Accounts</i>			
Bank of Scotland	A+	2,580	2,237
Northern Trust	AA	4,618	11,021
Total		7,198	13,258

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its internally managed Pension Fund cash holdings through use of instant access accounts or money market funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31

March 2020, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

19 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2018, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period.

The Actuarial Valuation assesses the health of the fund and provides a check that the Funding Strategy and assumptions used are appropriate.

2017 Actuarial Valuation

The 2017 Actuarial Valuation was undertaken for the Fund as at 31 March 2017 (full report available on the Scottish Borders Council Pension Fund website). The Valuation was completed during the financial year 2017/18 by the then actuaries, Barnett Waddingham. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014.

The funding level of the Fund as at the 31 March 2017 was 114%, compared to the 31 March 2014 valuation of 101% and this corresponded to a surplus of £80.64m. The following table summarises the funding position.

Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2014 £m	2017 £m
Value of the Scheme Liabilities	(487.6)	(573.3)
Smoothed Asset Value	490.5	653.9
Surplus/ (Deficit)	2.9	80.6
Funding Level	101%	114%

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two.

The next detailed Actuarial Valuation will be carried out for the Fund as at 31st March 2020.

Valuation Assumptions

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2017) were:

	2014 Valuation		2017 Valuation	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities	5.9	2.6	7.5	4.7
Absolute return funds	5.9	2.6	5.5	2.7
Gilts	3.6	-	1.9	-0.9
Bonds	4.1	0.5	2.6	-0.2
Property	5.5	1.9	6.3	3.5
Multi Asset Fund/Infrastructure	5.9	2.3	7.2	4.4
Retail Price Inflation (RPI)	3.6	-	3.7	-
Pay Increases – Long Term	4.6	2.0	3.8	1.0
Pension Increases	2.8	(0.8)	2.8	0.0
Discount Rate	5.5	1.9	5.0	2.2

Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S2PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2016 projections, with a long term rate of improvement 1.5%.

Commutation Assumption

It is assumed that future retirees will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules.

20 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the Triennial Funding Valuation, the Fund's Actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

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This uses the same base data as the Triennial Funding Valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

The actuarial present values, calculated in line with IAS 19, are set out in the table below.

	Net Pension Asset/(Liability) as at:		
	31 March 2018 £m	31 March 2019 £m	31 March 2020 £m
Present value of the defined benefit obligations	(844)	(941)	(887)
Fair Value of Fund Assets* (bid value)	685	733	713
Net Asset/(Liability)	(159)	(209)	(174)

The obligations figure above include £7m for the estimated impact the recent McCloud judgement, which relates to age discrimination arising from public sector pension scheme transition arrangements. The full impact of the judgement are not fully known at this time. This figure is used for statutory accounting purposes by the Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed below:

	At 31 March 2018	At 31 March 2019	At 31 March 2020
	% p.a.	% p.a.	% p.a.
Discount Rate	2.55	2.4	2.3
Pay Increases – Long Term	3.3	3.5	2.9
Pension Increases	2.5	2.5	1.9

As noted above, liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 Triennial Funding Valuation (see Note 19) because IAS 19 stipulates a discount rate, rather than a rate that reflects the market rate for investment returns on the Fund's assets.

21 CURRENT ASSETS

Current Assets	As 31 March 2019 £'000	As 31 March 2020 £'000
Short term debtors		
Contributions Due – Employees	92	15
Contributions Due - Employers	294	43
	386	58
Transfer value receivable (joiners)	193	102
Sundry Debtors	10	9
Prepayments	78	81
Total	667	250
Cash Balances	2,579	2,237
Total	3,246	2,487

22 CURRENT LIABILITIES

Current Liabilities	As 31 March 2019 £'000	As 31 March 2020 £'000
Transfer value payable (leavers)	499	198
Sundry Creditors	565	1,498
Benefits payable	331	252
Total	1,395	1,948

23 ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2020 was £1.2324m (2019 £1.194m). During the year contributions in totalled £0.293m, while payments out of the AVC fund totalled £0.204m. In accordance with regulation 4(2)(b) of the Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2009 (SI 2009/3093), AVCs are not included in the Pension Fund accounts.

24 AGENCY SERVICES

There are no agency services agreements in place.

25 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £1.50m (2019: £1.63m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.005m (2019: £0.004m). The Council charged the Pension Fund £0.343m (2019 £0.263m) in respect of expenses incurred in administering the Fund. There are no additional

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related party transactions that require to be disclosed. The Pension Fund balance due to Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2019 £'000	2020 £'000
Due (to)/from Scottish Borders Council	(343)	(142)

Governance

All members of the Pension Fund Committee were active members of the Pension Fund during 2019/20. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

26 KEY MANAGEMENT PERSONNEL

The key management personnel of the Fund is Scottish Borders Council Executive Director Finance and Regulatory. Total remuneration payable is set out below.

31 March 2019 £000's		31 March 2020 £000's
89	Short-term benefits	96
-	Post-employment benefits	-
2	Other long-term benefits	4
-	Termination benefits	-
-	Share-base payments	-
91	Total	100

The figures above reflect the full remuneration as reported in Scottish Borders Council Accounts. The Pension Fund is recharged 10% of the above post.

27 CONTINGENT ASSETS

One of the admitted body employers in the Pension Fund holds an insurance bond to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

28 CONTINGENT LIABILITIES

GMP Equalisation

On 26 October 2018, the High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund recognises the potential for liabilities arising from GMP equalisation. However, as guidance has not yet been issued by the Treasury it is not possible to quantify the impact this will have on the Fund at this time.

GMP Reconciliation

The exercise known as GMP Reconciliation to reconcile HM Revenue contracted out records with those of pension funds is reaching a conclusion. The full cost implication of this is not yet known. Scottish Ministers are expected to legislate that any LGPS pensions that have been overpaid due to incorrect GMPs being held should not be reduced. Instead it is expected that overpayments will be ring fenced and frozen at their current level. Final information is awaited from HMRC to enable this exercise to be fully concluded.

29 POST BALANCE SHEET EVENTS

The unaudited Statement of Accounts was issued by the Executive Director Finance & Regulatory on 30 June 2020. Events taking place after this date are not reflected in the financial statements or notes.

SECTION 4

INDEPENDENT AUDITORS REPORT

Independent auditor's report to the members of Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Scottish Borders Council Pension Fund (the fund) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is four years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – Property Investment Portfolio Valuations

I draw attention to Note 5 'Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty' in the notes to the accounts, which describes the effects of a material uncertainty caused by Covid-19 on property investment portfolio valuations. My opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Executive Director Finance and Regulatory has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director Finance and Regulatory and Scottish Borders Council Pension Fund Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director Finance and Regulatory is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director Finance and Regulatory determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director Finance and Regulatory is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Scottish Borders Council Pension Fund Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Executive Director Finance and Regulatory is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman

Gillian Woolman MA FCA CPFA

Audit Director

Audit Scotland

102 West Port

Edinburgh

EH3 9DN

05 November 2020

CONTACT DETAILS

For further information and advice on administration, benefits and scheme membership please contact:

Pensions Team

Telephone 01835 – 825052/3

E-mail pensions@scotborders.gov.uk

Scheme members should have a copy of the “Employees’ Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council”, and can obtain their own copy of an Annual Report on request.

or visit Scottish Borders Council Pension Fund website at:
www.scottishborderscouncilpensionfund.org

For further information on the Fund’s investments, please contact

Kirsty Robb

Telephone 01835 – 825249

Pension & Investment Manager

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