

Public Document Pack



AUDIT AND SCRUTINY COMMITTEE TUESDAY, 23 JUNE 2020

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held on TUESDAY, 23 JUNE 2020 at 10.15 am. The meeting will be conducted by Microsoft Teams live event.

Arrangements are in place to stream the meeting for public viewing. Further information and a link is provided on the Council's website.

J. J. WILKINSON,
Clerk to the Council,

16 June 2020

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
	AUDIT BUSINESS	
4.	Minute. (Pages 5 - 10) Minute of Meeting of the Audit and Scrutiny Committee held on 9 March 2020 to be approved and signed by the Chairman. (Copy attached.)	2 mins
5.	Internal Audit Work to March 2020. (Pages 11 - 24) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit to complete the Internal Audit Annual Plan 2019/20, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements. (Copy attached)	10 mins
6.	Risk Management Annual Report 2019/20. (Pages 25 - 30) Consider report by Chief Officer Audit and Risk on progress made to deliver the Council's Risk Management Strategy 2018 including an update on agreed Improvement Actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness. (Copy attached.)	15 mins
7.	Counter Fraud Annual Report 2019/20. (Pages 31 - 36) Consider report by Chief Officer Audit & Risk on the Council's counter fraud responsibilities and the progress made to deliver the Council's Counter Fraud Strategy 2018 including an update on improvement actions to refine the arrangements to tackling fraud at the Council. (Copy attached).	15 mins

8.	<p>Internal Audit Annual Assurance Report 2019/20. (Pages 37 - 48)</p> <p>Consider report by Chief Officer Audit & Risk on the annual assurance and audit opinion to Management and Audit and Scrutiny Committee arising from Internal Audit activity in completing the Internal Audit Annual Plan 2019/20. (Copy attached)</p>	20 mins
9.	<p>Scottish Borders Council Annual Governance Statement 2019/20. (Pages 49 - 58)</p> <p>Consider the draft Annual Governance Statement 2019/20 by the Chief Executive for inclusion in Scottish Borders Council's Statement of Accounts 2019/20. (Copy attached).</p>	10 mins
10.	<p>Unaudited Reports and Accounts 2019/20 for Scottish Borders Council.</p> <p>Consider various unaudited annual reports and accounts by Chief Financial Officer prior to their submission to the External Auditors (copies to follow):</p> <ul style="list-style-type: none"> (a) Scottish Borders Council (b) SBC Common Good Funds (c) SBC Charitable Trusts: <ul style="list-style-type: none"> (i) SBC Welfare Trust; (ii) SBC Education Trust; (iii) SBC Community Enhancement Trust; (iv) Ormiston Institution; (v) SBC Charity Funds (d) Bridge Homes LLP. (e) Lowood Tweedbank Ltd 	30 mins
11.	<p>Unaudited Report and Accounts 2019/20 for Scottish Borders Council Pension Fund. (Pages 59 - 150)</p> <p>Consider the unaudited annual report and accounts of the Pension Fund which have been reviewed by Pension Fund Joint Committee and Board prior to their submission to the External Auditors. (Copy attached).</p>	15 mins
12.	<p>Audit Scotland: COVID-19 What it means for public audit in Scotland. (Pages 151 - 156)</p> <p>Consider briefing by Audit Scotland published in May 2020 setting out Audit Scotland's statement on its response to COVID-19. (Copy attached).</p>	10 mins
13.	Any Other Audit Items Previously Circulated.	
14.	Any Other Audit Items which the Chairman Decides are Urgent.	
	SCRUTINY BUSINESS	
15.	<p>Proposed Scrutiny Work Programme (Pages 157 - 160)</p> <p>In light of the impact of Covid-19, reconsider the Scrutiny Work Programme being recommended for approval to Council. (Extract and Appendix from Audit & Scrutiny Minute – 10 February 2020 attached).</p> <p>Note: Members will require to suspend Standing Orders to consider this matter and make any changes to the original programme of work.</p>	10 mins
16.	Any Other Scrutiny Items Previously Circulated.	

17.	Any Other Scrutiny Items which the Chairman Decides are Urgent.	
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NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J. A. Fullarton, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, S. Scott and E. Thornton-Nicol. Mr M Middlemiss and Ms H Barnett

Please direct any enquiries to Fiona Walling
fwalling@scotborders.gov.uk

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SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTE of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Chambers. Council Headquarters, Newtown St Boswells on Monday, 9 March 2020 at 10.15 am

Present:- Councillors S. Bell (Chairman), H. Anderson, J. A. Fullarton, S. Hamilton, N. Richards, H. Scott, E. Thornton-Nicol, S. Scott, Mr. M. Middlemiss
Apologies:- Councillors K. Chapman, Ms H. Barnett
In Attendance:- Executive Director (R. Dickson), Executive Director Finance and Regulatory, Chief Officer Audit and Risk, Chief Social Work & Public Protection Officer, Democratic Services Team Leader, Trainee Democratic Services Officer

1. MINUTE.

There had been circulated copies of the Minute of the Meeting held on 10 February 2020.

DECISION

APPROVED for signature by the Chairman.

2. ACTION TRACKER

2.1 There had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee. In terms of the Best Value Audit Action Plan, it was noted that this plan was covered by Audit Scotland who scrutinised improvements in governance controls and should therefore be shown as part of an audit function. Ms Stacey advised that as the meeting on 4 June 2020 was a Scrutiny meeting this item would be brought to the Audit meeting on 11 May 2020 with further updates on progress presented to the November meeting. Ms Stacey further advised that following today's meeting the action tracker would be updated and any items marked as completed would be removed.

2.2 In response to a question, Mr Dickson explained that the situation with regard to the coronavirus was clearly challenging in terms of speed and although NHS was leading on this, SBC would be providing full support. With respect to the planning and scale to be covered, Management were satisfied that there was an understanding of the key challenges and the work to be planned with a focus being made on care homes, schools and nurseries. Information had been sent out through schools to parents on Friday. Mr Dickson also advised that Scottish Government was leading on all public communication and a further Members briefing would be inevitable.

DECISION

(a) NOTED the Action Tracker and:

(b) AGREED that an update on the Best Value Action Plan would be given at the next Audit meeting with further updates on progress made at the November meeting.

AUDIT BUSINESS

3. RISK MANAGEMENT IN SERVICES

3.1 The Chief Social Work and Public Protection Officer, Mr Easingwood, was in attendance to brief the Committee on the strategic risks facing the various services within social work and public protection and explained the internal controls and governance in place to manage and mitigate those risks. Mr Easingwood explained that the presentation

focussed on elements relating or pertaining to children and young people and public protection within the areas of service he managed, namely: adult social work services, adoption and fostering, children and families, out of hour's service (inc. emergency duty team), criminal justice services, mental health, public protection, quality standards and inspections, safer communities and youth justice. Risk registers for each of the services were developed through social work and public protection processes and were owned by Service Managers within that service. Risks were regularly reviewed by the Services Management Team and when necessary, were escalated to Corporate Management Team (CMT).

- 3.2 Mr Easingwood explained that a new Public Protection Governance model had been in place since January which had merged the Child and Adult Protection Committees into one. The nature of the service was such that it would never be possible to eliminate risk but the aim was to try and mitigate risk as much as possible and embedded processes were in place. The changes implemented would include a new suite of performance indicators. Mr Easingwood then went on to give a brief overview of the risks within each service. With regard to self-evaluation and input from service users, Mr Easingwood advised that while such evaluation was well embedded within Adult Protection there was still work to be done to ensure the inclusion of the views of the child. He further advised that the Care Inspectorate were taking a close interest in the inclusion of these services under one umbrella. In response to a question, Mr Easingwood explained that work was being carried out with schools with regard to pupils' use of smart phones and the need for a uniform policy. Mr Easingwood further advised on the challenge of recruiting qualified social workers, which was a national problem. Work on innovative traineeships and how to make the roles more attractive in the Scottish Borders was being undertaken. There was a concern raised regarding high tariff child placements, In addition to the potential financial impacts of children and young people being placed outwith the Borders it was noted that there tended to be poorer outcomes for these children and the aim was to keep as many as possible in the Borders. Work continued to try and bring more children back to the Borders and there were proposals to develop services with the Aberlour Trust. A model was needed to allow engagement with families at an earlier stage to try and mitigate problems before they escalated. There was an increasing requirement for supervision of children and their parents being required by both the Children's Panel and the courts. In order that there was a better understanding of the implications of such orders there had been active engagement with the Children's Panel and a joint training session with Child Protection. The Chairman thanked Mr Easingwood for his presentation.

DECISION

NOTED the presentation.

4. INTERNAL AUDIT WORK TO FEBRUARY 2020

With reference to paragraph 9 of the Minute of 10 February 2020, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements. The work Internal Audit had carried out during the period 1 February to 29 February 2020 was detailed in the report. During the period, a total of seven Final Internal Audit reports had been issued, with five recommendations made associated with two of the reports. An Executive Summary of the final Internal Audit reports issued, including audit objective, key findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was detailed in Appendix 1 to the report. In response to a question, Ms Stacey advised that the status of the recommendations for the Fit for 2024 transformation programme, which had been agreed by the Board, was that these were progressing and contact had already been made with the Corporate Risk Officer to ensure that risks were identified and monitored. With regard to a concern raised

that there was no mention of monitoring of grants given to the path network to ensure they were being utilised appropriately, Ms Stacey advised that the audit had only looked at budget control. However, Mr Dickson advised that Council responsibilities still applied and that the budgets in this area would be monitored. Members were also given assurance that the off-site IT Security relocation arrangements in North Lanarkshire had been designed appropriately and that all parties were adhering and complying with good practice. Appropriate system back-up servers had also been set up in the North Lanarkshire recovery centre. Mr Robertson advised that there was no anticipated date for completion from CGI and although the physical relocation of the equipment had taken place some file mapping was still to be carried out. He further advised that processes and procedures had been updated to gain assurance that IT records were updated timeously to reduce risks to the accounts and avoidable costs being incurred.

DECISION

(a) NOTED:-

- (i) the final assurance reports issued in the period from 1 to 29 February 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and**
- (ii) the Internal Audit Assurance work in progress and Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.**

(b) AGREED to acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit Work.

MEMBER

Councillor S. Hamilton left the meeting following consideration of the above report.

5. SCOTLAND'S CITY REGION AND GROWTH DEALS

There had been circulated copies of a report by the Accounts Commission published in January 2020 which provided an overview of the City Region and Growth Deals that had enabled economic development projects across Scotland and had increased collaboration between Councils and partners. The Executive Director, Mr Dickson explained that the key messages within the report outlined that £5.2billion had been committed to support economic development in all parts of Scotland and the money came from the UK and Scottish Governments, Councils and their partner organisations which brought additional long term funding for regional economic development. Four deals had been signed to date and eight were in development. Deals had been developed against an evolving policy backdrop and each deal was made up of a number of projects, largely comprising infrastructure improvements. The report also highlighted that governance and scrutiny arrangements were in place at a national and deal level. Accountability and scrutiny arrangements were still evolving. Appendix 1 to the report showed the audit methodology with the objective to carry out early assessments on how prepared the Scottish Government and Councils were for the deals. The advisory group membership was shown within Appendix 2 to the report. Appendix 3 and Supplement 1 outlined the Scrutiny Tool Checklist for Councillors. This scrutiny tool was designed to provide Councillors with example questions they may wish to ask to help them better understand the Council's deal and to scrutinise performance. Appendix 4 to the report gave an overview of the signed deals. Mr Dickson addressed all points raised and advised that a report would be presented to Council on 26 March 2020 with regular six monthly updates to Members.

DECISION

NOTED the report.

MEMBER

Councillor S. Scott left the meeting during the above item.

6. INTERNAL AUDIT CHARTER

With reference to paragraph 9 of the Minute of 11 March 2019, there had been circulated copies of a report by the Chief Officer Audit and Risk providing the Committee with the updated Internal Audit Charter for approval. The Charter defined the terms of reference for the Internal Audit function to carry out its role to enable the Chief Officer Audit and Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) was "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helped an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Officer Audit and Risk, as the Chief Audit Executive at Scottish Borders Council, must periodically review the Internal Audit Charter and present it to senior management (Corporate Management Team) and the board (Audit and Scrutiny Committee) for approval. The Internal Audit Charter was shown in Appendix 1 to the report and had been updated by the Chief Audit Executive (SBC's Chief Officer Audit and Risk) in conformance with the PSIAS for approval by the Audit and Scrutiny Committee to ensure that Internal Audit was tasked to carry out its role in accordance with best Corporate Governance practice. Ms Stacey advised that the Internal Audit Charter had been updated to explicitly reflect the change in reporting line of the Chief Officer Audit and Risk associated with the revised Corporate Management structure from January 2020 and reflected the reintegration of all services directly delivered by the SB Cares ALEO into the Council from December 2019. It also amended reference to Corporate Risk Officer to reflect resource arrangements for risk management activity from September 2019. Ms Stacey further advised that the Internal Audit Charter would be considered alongside the Internal Audit Strategy and Plan 2020/21.

DECISION

AGREED the updated Internal Audit Charter as shown in Appendix 1 to the report.

7. INTERNAL AUDIT STRATEGY & ANNUAL PLAN 2020/21

- 7.1 With reference to paragraph 10 of the Minute of 11 March 2019, there had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval to the proposed Internal Audit Strategy and Internal Audit Plan 2020/21 to enable the preparation of the annual opinions on the adequacy of the overall control environment for Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. Ms Stacey explained that the Internal Audit function followed the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) which required the establishment of risk based plans to determine the priorities of the Internal Audit activity and that these plans were sufficiently flexible to reflect the changing risks and priorities pertaining to each organisation. The Internal Audit function also included the requirement to provide senior management and members with independent and objective assurance which was designed to add value and improve the organisation's operation. In addition, the Chief Officer Audit and Risk was also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment. The background to the Internal Audit Strategy was set out in Appendix 1 to the report. Ms Stacey explained that the Internal Audit Annual Plan 2020/21, detailed in Appendix 2, set out the range and breadth of audit areas and sufficient work within the audit programme of work to enable the Chief Officer Audit and Risk to prepare an Internal Audit annual opinion. Key components of the audit planning process included a clear understanding of the

organisation's functions, associated risks, and assurance framework. There were staff and other resources currently in place to achieve the Internal Audit Annual Plan 2020/21 and to meet its objectives.

- 7.2 The Committee discussed the report and Ms Stacey advised that the Internal Audit Strategy outlined the strategic direction and reflected the Council's decision on 26 September to reintegrate all of the services directly delivered by SB Cares into the Council from 1 December 2019. This had an effect of reducing the percentage allocation of resources to non-SBC organisations and increased the percentage allocation of resources to the Council. The proposed coverage in the Internal Audit Annual Plan would enable assurance to be provided to the Committee and Corporate Management Team though the plan would be considered to be flexible and would periodically be reviewed, and amended as required, to reflect any new arrangements or changing risks and priorities. Members were advised that this was an evolving plan and recent discussions had been held with Service Directors which highlighted the flexibility required within the plan due to some of the issues that came up during the year which would be incorporated into the plan, whilst the core objective would be to increase the scope within the plan.

DECISION

AGREED:-

- (a) the Internal Audit Strategy as detailed in Appendix 1 to the report; and
- (b) the Internal Audit Annual Plan 2019/20 detailed in Appendix 2 to the report.

The meeting concluded at 11.55 am

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INTERNAL AUDIT WORK TO MARCH 2020

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

23 June 2020

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements.**
- 1.2 The work Internal Audit has carried out in the period from 1 to 31 March 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20 is detailed in this report. A total of 3 final Internal Audit reports have been issued. There were a total of 14 recommendations made associated with the 3 reports (10 Medium Risk; 4 Low Risk).
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Notes the final Internal Audit reports issued based on Internal Audit work carried out in the period from 1 to 31 March 2020 in accordance with the delivery of the approved Internal Audit Annual Plan 2019/20; and**
 - b) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work, and the actions agreed by Management to improve internal controls and governance.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2019/20 was approved by the Audit and Scrutiny Committee on 11 March 2019. Internal Audit has carried out the following work in the period from 1 to 31 March 2020 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Internal Audit Reports

- 3.3 Internal Audit issued final assurance reports on the following subjects:
- Contracting and Procurement
 - BW ERP System Key Internal Controls
 - SB Contracts
- 3.4 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Recommendations

- 3.6 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

High: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.

Medium: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.

Low: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.

Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.7 The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	0
Medium	10
Low	4
Sub-total reported this period	14
Previously reported	26
Total	40
Recommendations agreed with action plan	40
Not agreed; risk accepted	0
Total	40

4 IMPLICATIONS

4.1 Financial

There are no costs attached to any of the recommendations in this report.

4.2 Risk and Mitigations

- (a) During the development of the Internal Audit Annual Plan 2019/20 and at the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (b) If audit recommendations are not implemented, there is a greater risk of loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate effective management of risks through improved internal controls and governance.

4.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

4.4 **Acting Sustainably**

There are no direct economic, social or environmental issues in this report.

4.5 **Carbon Management**

No direct carbon emissions impacts arise as a result of this report.

4.6 **Rural Proofing**

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

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

No changes are required as a result of this report.

5 **CONSULTATION**

- 5.1 The Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 5.2 The Corporate Management Team, Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit and Risk **Signature**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 9 March 2020

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Contracting and Procurement</p> <p>No: 002/010</p> <p>Date issued: 14 April 2020 Draft; 02 June 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the procurement processes and internal controls to ensure these adequately address the key risks, and to assess compliance with the procurement framework and adequacy of contract monitoring.</p> <p>The Commercial and Commissioned Services Strategy sets out the role of strategic procurement in supporting the need to 'do more with less' and with the challenges that the Council faces requires an imaginative and commercially-focussed approach to how the supply chain and suppliers are engaged and managed.</p> <p>Procurement governance, policies and procedures in place are effective in discharging the Council's obligations. The Procurement and Contract Standing Orders were however last reviewed and approved in July 2017 and need to be updated.</p> <p>Procurement Business Planning processes document the rationale for contract award, risk management, business continuity and sustainability. Procurement processes allow for instances where competition is not being sought, subject to criteria being met to ensure value for money from suppliers is evidenced (waiver); the waiver process is not always complied with in its entirety.</p> <p>Procurement and purchasing guidelines are available on the Intranet and SB Learn (training stats indicate that uptake is low).</p> <p>Contract management and monitoring is still not fully embedded within the culture of the Council. The Contract Management Framework, which has been designed, developed and tested by the Contract Management Working Group, is in implementation phase as part of the Fit for 2024 transformation programme. The delivery of Contract Management functionality is to be achieved through the adoption of two new, dedicated software modules provided by Proactis. These modules share the supplier master file data contained in Business World system.</p>	0	2	1	<p>Management have accepted the report findings and have agreed to implement the recommendations within realistic timescales.</p> <p>Executive/Service Directors will be responsible for Management monitoring of procurement activity (2nd line of defence for assurance purposes) with support from the Procurement Team. Service Managers will be responsible for familiarising themselves with procurement policy and guidance, and ensuring that staff undertake training.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Contracting and Procurement (cont'd)	<p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Some improvements are required, such as updating procurement standing orders, enhancing Management oversight and scrutiny of procurement activity, and completing staff training.</p> <p>The following Internal Audit recommendations were made:</p> <ul style="list-style-type: none"> • The Procurement and Contract Standing Orders should be reviewed and updated, and communicated across the Council to ensure compliance with Procurement rules. A review of the waiver process should be undertaken. (Low) • There should be Senior Management oversight of the use of the waiver process, supplier spend analysis, and expiration of contracts. Services should also ensure that their procurement forward planning processes are robust in order to reduce the number of waiver applications. (Medium) • Line Managers should ensure that staff with responsibility for procuring and purchasing goods, works and services undertake training regarding the Procurement framework to ensure they are aware of the processes and procedures when procuring goods, works and services. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: BW ERP System Key Internal Controls</p> <p>No: 073/003</p> <p>Date issued: 5 May 2020 Draft; 3 June 2020 Final</p> <p>Level of Assurance for the specific areas tested:</p> <ul style="list-style-type: none"> • Procure to Pay – Substantial (with exception of GL07 – Limited) • Sales to Cash – Substantial • Payroll / HR – Comprehensive (with the exception of Expenses – Limited) • Record to Report – Substantial • System Roles / User Access – Limited • Systems Documentation and Training Materials – Substantial 	<p>This Business World ERP System Key Internal Controls review was an integration of 4 audits included within our Internal Audit Annual Plan 2019/20 relating to the workstreams (Record to Report; Procure to Pay; Payroll including Pension Payments & HR; Sales to Cash).</p> <p>The purpose of the review was to test the end to end processes and internal controls in place during the period April 2019 to February 2020 which are intended to:</p> <ul style="list-style-type: none"> • ensure complete and accurate processing of transactions with suppliers and customers; • ensure complete and accurate processing of payments to current and former employees; and • record transactions and payments in an appropriate manner for the purposes of budgetary control, and financial reporting. <p>The scope of the audit included: a review of any changes to processes or controls in recognition of the ongoing Business World system work being delivered by CGI; other functionality that has been rolled out to staff during 2019/20, including those areas that are due to 'go live'; and specific testing of transactions relating to the reintegration of all SB Cares services into the Council from December 2019.</p> <p>The BW Masterfile records (Supplier, Customer, Employee) contain financial and personal data and it is essential that any changes to Masterfile records in terms of creation, amendment or deletion are tightly controlled and restrictions around access are applied. Our focus this year was on the Supplier Masterfile data and substantive testing of this indicated that amendments were processed by those authorised to undertake those tasks and those changes are generally supported by appropriate documentation (this is an external audit Key Control). We made some recommendations for some areas that can be improved.</p>	0	5	3	<p>Management have accepted the report findings and have agreed to implement the recommendations within reasonable timescales.</p> <p>Our work does not cover any additional enhancements or changes to the BW ERP system or workstream processes and procedures since March 2020.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: BW ERP System Key Internal Controls (cont'd)	<p>The testing of P2P transactional processing evidenced that valid transactions are being accurately and correctly recorded. Our review of the VAT treatment on purchase orders and associated supplier invoices, to ensure the correct amounts of VAT are entered into the General Ledger, highlighted where a system improvement could be made to assist the AP Team.</p> <p>In respect of the continued use of the GL07 payment process for payments that have been authorised in sub-systems for which no interface with Business World exists, there is an Action Plan in place to help address the known control risks and provide alternative solutions. Whilst this has not progressed as quickly as expected work is ongoing and we will continue to monitor progress with the action plan.</p> <p>Our testing of sales invoices and credit notes, which focused on the VAT treatment applied to charges, showed that in all but 1 case (sales invoice) VAT had been applied correctly. Our review of the monitoring and reporting of Aged Debt highlighted where an improvement could be made to the Aged Debt report to ensure it can distinguish between different debt types.</p> <p>The testing of Payroll key controls evidenced that employee validation, exception reporting and standing data showed no area of concern. Data analytics testing and matching of expense claims highlighted areas of improvement for line managers and employees to ensure their completeness and accuracy. New HR functionality rolled out to staff during 2019/20 included planned/unplanned absences, training and staff appraisal modules.</p> <p>We consider that sufficient functionality currently exists within the Record to Report module to assist Service Managers with budget monitoring and forecasting. The roll out of Financial Information Centre (FIC) will be delivered by the end of June 2020.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: BW ERP System Key Internal Controls (cont'd)	<p>Role separation within BW is designed to provide an appropriate separation of duties to ensure officers have appropriate and correct permissions to carry out their tasks. The role review is ongoing and whilst some changes have been made, until this role review is complete we can only give limited assurance in this area. We will continue to monitor progress with this.</p> <p>The Council's Financial Regulations were updated to reflect the implementation of BW system and were approved in November 2018. The associated Financial Policies and Procedures are currently being updated to ensure they reflect current practices thus enabling roles and responsibilities to be appropriately discharged: Anti-Money Laundering Policy is ready for approval; Income Management, Debt Recovery and External Charging policies and procedures are to be completed by end August 2020.</p> <p>A restructure of the Corporate Management Team took place in January 2020. The extent of work required to the Scheme of Delegation within BW system has been identified for later implementation. Some changes have already been made where this was affecting the routing of approvals or if there was any impact from an HR/Payroll perspective (e.g. Grade / Post Title). The full programme of changes is planned for implementation by the end of June 2020.</p> <p>Our testing of the data migration from SB Cares systems to the Council's BW system from 1 December 2019 (which included payroll/HR, procure to pay, and sales to cash) concluded that this was robustly undertaken and data was correctly migrated.</p> <p>There is one outstanding recommendation from our 2017/18 review relating to Audit Trails (All modules, medium risk), which is still work in progress and requires further input from BW consultants. We will continue to monitor and review progress with this. Other improvements from 2017/18 and 2018/19 have largely been completed.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: BW ERP System Key Internal Controls (cont'd)	<p>The following Internal Audit recommendations were made:</p> <p>Procure to Pay Systems Based</p> <ul style="list-style-type: none"> VAT on invoices should be calculated by the BW system with the exceptions being dealt with by the AP team. (Low) <p>Operational Processes</p> <ul style="list-style-type: none"> The AP team should ensure that they follow the same practices to ensure consistency regarding supplier documentation. (Medium) A quarterly review of suppliers that have not been paid recently should be carried out by the AP Team to ensure the Supplier Masterfile is up to date. (Low) The report identifying retrospective orders should be actioned on a monthly basis in order that officers can be reminded that orders should be raised for goods and services via official BW orders and not retrospectively in order to facilitate goods receipting and supplier payment. (Medium) A quarterly review of outstanding purchase orders should be carried out in collaboration between Procurement and Finance in order that these can be closed and ensure that budget commitments are correct. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: BW ERP System Key Internal Controls (cont'd)	<p>Recommendations (Cont'd)</p> <p>Sales to Cash Systems Based</p> <ul style="list-style-type: none"> The aged debt report within BW should be reviewed to consider how debt managed under payment by instalment and where recovery has been deferred can be reported. (Low) <p>Payroll and HR Operational Processes</p> <ul style="list-style-type: none"> The Employee Travel and Mileage Policy should be updated to reflect current arrangements, and clarity provided regarding the correct process for supply and peripatetic officer mileage / expense claims. (Medium) Line managers should be reminded of their responsibilities to ensure accurate information is recorded in BW system, namely: <ul style="list-style-type: none"> ➤ Greater scrutiny when authorising expense claims to ensure that staff are claiming expenses only when at work and not when shown to be absent. ➤ Ensure staff are aware, and make use, of the Employee Travel and Mileage Policy and the Business Travel Decision Maker regarding business journeys, specifically the use of pool cars. ➤ Licence, Insurance and MOT information should be recorded in BW to enable staff to use their own vehicles when a pool car is not available, and reviewed annually. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: SB Contracts</p> <p>No: 209/004</p> <p>Date issued: 25 March 2020 Draft; 22 April 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to ensure that adequate financial and operational controls are in place over externally sourced income and operations to ensure sustainability.</p> <p>SB Contracts is the Council's only Significant Trading Organisation (STO) and performs a range of roads maintenance and civil engineering/construction work for the Roads and Infrastructure Service, other Council Directorates, other public sector bodies and a range of third parties including external companies and private individuals. SB Contracts continues to actively tender for a range of contracts; however, the external market remains competitive which in turn creates a challenging environment in which to operate.</p> <p>Under the Council's Scheme of Administration the performance of SB Contracts is scrutinised by the Major Contracts Governance Group. Due to the commercial aspects of the business, reports are considered in private. Minutes of these meetings are reviewed by the Council.</p> <p>A Service Review is underway through the Fit for 2024 transformation programme, and discussions are ongoing with HR and Finance in terms of workforce planning to support the commercial operations of the Service.</p> <p>Monthly budget monitoring meetings are held with Managers to discuss Budget Forecast reports and updates. SB Contracts' budget information is compiled from two systems (Servitor and Business World) as one system alone cannot provide the information required. Maintaining these spreadsheets is time-consuming, duplicating information, and open to error. There might be an opportunity to streamline or automate this process.</p> <p>Financial and operational controls and procedures are in place for contract processes to ensure income for SB Contracts is received and accounted for.</p>	0	3	0	<p>Management have accepted the report findings and have agreed to implement the recommendations within realistic timescales.</p> <p>Progress with the Service Review underway through the Fit for 2024 transformation programme will be reviewed as part of Internal Audit's planned work for 2020/21 on Roads Asset Management.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: SB Contracts (cont'd)	<p>There is general compliance with procurement policies and procedures. Sub-contractors, whilst they are on the BW system supplier Masterfile, are not on a framework for the procurement of works and services i.e. potential for process efficiency.</p> <p>Overtime justification is considered prior to overtime hours worked. Authorisation of overtime and claims is transparent and easily evidenced with appropriate segregation of duties.</p> <p>The SB Contracts service risk register was reviewed during November 2019, with the next review due May 2020. Risk assessment is also carried out as part of any internal or external works undertaken by SB Contracts.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, scope for improvement, such as procurement practices and staff training, as current arrangements could undermine the achievement of objectives.</p> <p>The following Internal Audit recommendations were made:</p> <ul style="list-style-type: none"> • A process should be developed and introduced for the scrutiny of purchase orders from the Servitor system by Procurement staff. (Medium) • SB Contracts Management should engage with Procurement Business Partners to ascertain if Framework Agreements can be put in place for sub-contractors. (Medium) • SB Contracts Management should assess and identify staff who require training regarding the Procurement/Purchasing framework to ensure they are aware of the processes and procedures when procuring goods, works and services. (Medium) 				<p>Discussions have been held between Internal Audit and the Procurement Team to outline a practicable approach that can be taken to ensure the recommended improvements are undertaken whilst minimising resource implications.</p> <p>Progress on implementation of the recommendations and other improvements will be reviewed as part of Internal Audit's follow up work for 2020/21.</p>

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RISK MANAGEMENT ANNUAL REPORT 2019/20

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

23 June 2020

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of this report is to provide Members with an overview of Scottish Borders Council's responsibilities in respect of risk management and an update on the risk management activity during 2019/20.**
- 1.2 Effective Risk Management is one of the foundations of effective Corporate Governance and is recognised as such in the Council's Local Code of Corporate Governance. Compliance with the principles of sound Corporate Governance requires the Council to adopt a coherent approach to the management of risks that it faces every day. Better and more assured risk management will bring many benefits to the Council and the people it serves.
- 1.3 Management have the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks to the achievement of the Council's objectives. Internal Audit is required to give independent assurance on the effectiveness of all internal controls and other arrangements put in place by Management to manage risk. Part of the Audit and Scrutiny Committee's role (Audit function) is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.
- 1.4 In 2018, a revised Risk Management Policy statement and a 3-year Risk Management Strategy were endorsed by this Committee and approved by the Council to continue to refine its approach to managing risks with a focus on quality of reporting to enable sufficient Senior Management monitoring and oversight.
- 1.5 This annual report shows that the Council continues to refine its approach to Risk Management and embed these key aspects into the management practices of the Council, and outlines progress made during 2019/20 in delivering the Risk Management Strategy to achieve Policy objectives.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Scrutiny Committee

- a) **Acknowledges that it is satisfied with the arrangements for managing risks at the Council to ensure their on-going effectiveness in support of the Council's risk management policy and strategy; and**
- b) **Considers whether any further action is required.**

3 BACKGROUND

- 3.1 Effective Risk Management is one of the foundations of effective Corporate Governance and is recognised as such in the Council's Local Code of Corporate Governance (approved by Council, June 2018). Compliance with the principles of sound corporate governance requires the Council to adopt a coherent approach to the management of the risks that it faces every day. Common sense serves to underline the message that better and more assured risk management will bring many benefits to the Council and the people it serves.
- 3.2 The Roles and Responsibilities are set out within the Council's Risk Management Policy. Management have the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks that potentially endanger or have a detrimental effect upon the achievement of the Council's objectives and its people, property, reputation and financial stability whether through core service delivery or through a programme of change.
- 3.3 Management continue to be advised and supported by the Corporate Risk Officer to fulfil their responsibilities for managing risk. The Corporate Risk Officer schedules and facilitates risk reviews with Senior Managers / Risk Owners using established guidelines, toolkits and practices, and maintains an overview of risk management across the Council to ensure systems of identification, evaluation and management of key risks facing the Council continue to be robust.
- 3.4 Internal Audit is required to give independent assurance on the effectiveness of all internal controls and other arrangements put in place by Management to manage risk, and to make recommendations designed to improve the management and mitigation of risks, in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
- 3.5 Part of the Audit and Scrutiny Committee's role (Audit function) is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.
- 3.6 The risk management landscape is dynamic and as the Council, in common with other local authorities, increasingly moves towards partnerships and alternative delivery models, the spectrum of risks that the Council is exposed to also increases.
- 3.7 In 2018, a revised Risk Management Policy statement and a 3-year Risk Management Strategy were endorsed by this Committee and approved by the Council. Refinements to the Council's approach to managing risks include a focus on ensuring that risk management reporting is of a high quality so that decisions can be taken with full clarity of the risks involved. Quality reporting will also ensure sufficient monitoring and oversight is provided by Senior Management to allow them to fulfil their risk management role, as detailed in the Risk Management Policy 2018.
- 3.8 The other key change in focus for the Risk Management Strategy 2018, which sets out the arrangements for applying the risk management policy in practice, is to ensure that those contracted to deliver services on behalf of the Council and through partnership arrangements have robust risk management framework in place. It is essential that the Council recognises that outsourcing services through contracts and commissioned services does not remove the statutory obligation and therefore the consequences of any failure of these arrangements.

4 RISK MANAGEMENT ACTIVITY 2019/20

- 4.1 The Council has a standard risk management process with risk registers at Corporate and Service levels uploaded to Pentana, the Council's performance management system. Risk registers are formally reviewed with the Risk Owner and the relevant Management Team on a quarterly basis, and Pentana system is updated to reflect this. The Risk Management support team (from February to September 2019) and the Corporate Risk Officer (from September 2019 onwards) advised and supported Management to fulfil their responsibilities for managing risk.
- 4.2 In addition to the Corporate and Service risk reviews detailed above, facilitated Risk workshops have also taken place to develop risk registers relating to projects and programmes for example, the new Roads Review. Facilitated risk reviews continue to take place for the Tweedbank Programme Board.
- 4.3 During 2019/20 various Executive/Service Directors representing the diverse range of Council services made presentations to the Audit and Scrutiny Committee at each of their meetings on the strategic risks facing their respective Services and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within Services. This approach provided the opportunity to the Elected and External Members of the Committee, as part of their oversight remit, to gain a fuller understanding of how Management are discharging their risk management responsibilities in practice and to enable them to hold Management to account on the application of the Risk Management Policy. The style and content of the presentations changed from February 2020, following a request from the Chair of the Committee for the presentations to be more focused on how individual risks are managed and controlled. This new approach has proven to be successful, with Members providing positive feedback following presentations by the Executive Director Finance & Regulatory in February 2020 and the Chief Social Work and Public Protection Officer in March 2020.
- 4.4 Liaison with Internal Audit on an on-going basis to ensure that risk is considered in every assurance audit and risk reviews take account of improvements arising from audit work continues to take place. The Corporate Risk Officer receives all Final Internal Audit Reports.
- 4.5 Improved Pentana system functionality has provided the opportunity for Service Managers to monitor their Business Plan Actions, Performance Indicators, Risks and Audit Actions through dedicated portals, creating a valuable management information tool that needs to be fully exploited at Directorate Management Teams.
- 4.6 Risk management advisory and support services were provided to Live Borders and the Scottish Borders Health and Social Care Integration Joint Board using the same systematic approach as part of their respective business or strategic planning processes. As SB Cares reintegrated to the Council from 1 December 2019, it follows the usual risk management arrangements as per other Council Services.
- 4.7 The Chief Officer Audit & Risk is a mandatory consultee for all Committee reports, which provides the opportunity to check that full risk information is provided. On return to the Council from September 2019 the Corporate Risk Officer has continued to comment on the Risk and Mitigations section of Committee reports, as described in the revised Risk Management Policy 2018, to ensure that decision makers are cognisant of the risks associated with the proposals/decisions to be taken. This has proved to be very

successful with positive feedback from report authors. It also further embeds risk management practice into the Council's decision-making methodology. New guidance is to be added to the Committee Reports Guidance document shortly to ensure that the Risk and Mitigations section is completed correctly and with sufficient detail.

- 4.8 Following the period where Managers were self-serving and reviewing risks registers without specialist facilitation from the Corporate Risk Officer, it was agreed that the Risk Management Framework would be reviewed as part of a wider Risk Management Health Check. This would allow a thorough review of the current risk management arrangements for efficacy and to assess how well embedded these arrangements are within the Council and partner organisations who follow the Council's Corporate Risk Management Framework. This work was initiated with a Risk Management Health Check questionnaire, which was distributed through Citizen Space, for all Risk Owners to complete. The results of the questionnaire are yet to be analysed, as the coronavirus outbreak occurred shortly after the questionnaire closed. It is hoped that this analysis can take place within the next few months to determine any areas of improvement.
- 4.9 Following the outbreak of the coronavirus Covid-19 at the end of 2019 and the gradual spread throughout the world, the Council began to proactively anticipate and identify risks to its essential services. Plans and mitigations were agreed and put in place so that when lockdown occurred on 23 March 2020 the Council continued to support the most vulnerable individuals and businesses within its communities. As Scotland and the Council moves into the next stage of the pandemic, risks will continue to be identified and managed to ensure that Services continue to be delivered in the safest way possible for all stakeholders.

Conclusion

- 4.10 The above demonstrates that the management of risks is being embedded and is recognised as an essential part of management practice, which is the key objective of the Corporate Risk Management Policy. It is an essential part of decision making and should help to ensure that decisions are taken and risks are fully understood.

5 RISK MANAGEMENT NEXT STEPS 2020/21

- 5.1 It is the intention to review the Risk Management training course which was last reviewed in 2018. Given the exceptional circumstances as a consequence of the Coronavirus pandemic, the training may be delivered through an online platform to ensure that Managers have the skills to continue to identify, monitor and control risks in line with the Corporate Risk Management Policy and Framework.
- 5.2 If the Risk Management framework and strategy is to work to full efficacy then the use of Pentana system should be encouraged (enforced) for all Services so Managers have an overview of all KPI's, actions and risks in one place. In addition, oversight monitoring by Senior Management (DMTs) should be undertaken to apply the Risk Management Policy in practice.
- 5.3 New Risk Management reports, generated in Pentana system, have been developed to improve the quality of reporting. These reports form the basis of Risk Management presentations to the Audit and Scrutiny Committee and provide a dashboard summary of individual risks and how they are managed. Improved reporting to Senior Management will be developed following the analysis of the responses from the Risk Management Health Check questionnaire.

- 5.4 Formal risk reviews, facilitated by the Corporate Risk Officer, on a quarterly basis will take into account any new risks arising from Covid-19 response, lessons learned and changes to service delivery.
- 5.5 Reviews of the Council's Risk Management Policy and Strategy will be carried out to check if any updates are required arising from refinements in the approach. Any significant changes will be brought to the Audit and Scrutiny Committee for approval.
- 5.6 Elected Members are encouraged to seek out the Risk and Mitigations section of Committee reports that they are asked to approve. Challenge is welcomed to ensure that the Elected Members are satisfied that the risks to the decisions they are being asked to make are fully considered and mitigated appropriately.

6 IMPLICATIONS

6.1 Financial

There are no financial implications as a direct result of the report. The Corporate Risk Officer resource costs are contained within budgets. Any additional costs arising from enhanced risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

6.2 Risk and Mitigations

The report sets to assure the Audit and Scrutiny Committee that the Council is undertaking its risk management responsibilities adequately. It also allows the Committee to fulfil their remit as set out in the Corporate Risk Management Policy.

6.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, not a new or revised policy or strategy for decision and, as a result, completion of an integrated impact assessment is not an applicable consideration.

6.4 Acting Sustainably

No direct economic, social or environmental issues with this report.

6.5 Carbon Management

No direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

- 7.1 The Corporate Management Team has been consulted on this report and any comments received have been incorporated in the final report.
- 7.2 The Executive Director Finance & Regulatory, Chief Legal Officer (Monitoring Officer), Service Director HR & Communications, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been incorporated in the final report.

Approved by
Jill Stacey, Chief Officer Audit & Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036
Justine Leuty	Corporate Risk Officer Tel 01835 824000 Ext 8058

Background Papers: Scottish Borders Council's Corporate Risk Management Policy Statement and Corporate Risk Management Strategy

Previous Minute Reference: Audit and Scrutiny Committee 13 May 2019

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

Contact us at Justine Leuty, Justine.Leuty@scotborders.gov.uk

COUNTER FRAUD ANNUAL REPORT 2019/20

Report by Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

23 June 2020

1 PURPOSE AND SUMMARY

- 1.1 This report provides the Audit and Scrutiny Committee with details of the Council's counter fraud responsibilities and an update on the fraud prevention, detection and investigation activity during the year to 31 March 2020.**
- 1.2 The Council is committed to minimising the risk of loss due to fraud, theft or corruption and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.
- 1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud and Compliance Officer. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. Part of the Audit and Scrutiny Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.
- 1.4 In 2018, a revised Counter Fraud Policy statement and a 3-year Counter Fraud Strategy were endorsed by this Committee and approved by the Council to continue to refine its approach to tackling fraud with a focus on prevention and detection and promotion of anti-fraud culture across the Council, taking account of reducing resources. This is the second annual report on progress to be presented to the Audit and Scrutiny Committee.
- 1.5 Total Savings (Overpayments and Estimated Savings) of £346,725 from fraud and error were identified in the National Fraud Initiative (NFI) 2018/2019 exercise, as at 4 April 2020.
- 1.6 Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the outcomes contained within this report.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Considers the counter fraud work undertaken in support of the Council's counter fraud policy and strategy; and**
 - b) Notes the outcomes of the counter fraud activity 2019/20.**

3 BACKGROUND

- 3.1 The size and nature of the Council's services, as with other large organisations, puts the Council at risk of loss due to fraud, theft or corruption. The Council's Counter Fraud Policy states the roles and responsibilities in tackling fraud; the primary responsibility for the prevention, detection and investigation of fraud rests with Management.
- 3.2 Establishing a counter fraud culture is fundamental to ensuring an effective response to fraud, theft, corruption or crime and the leadership part played by Corporate Management Team and Senior Management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 3.3 The Corporate Fraud Steering Group (Integrity Group) is a forum which has representatives from across the Council's Services to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, corruption, theft and crime. It oversees the counter fraud policy framework, agrees and monitors the implementation of counter fraud improvement actions, raises awareness as a method of prevention, and performs self-assessment checks against best practice. It is supported by the Corporate Fraud and Compliance Officer within the Audit & Risk service, the post-holder being an Accredited Counter Fraud Specialist.
- 3.4 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud.
- 3.5 Part of the Audit and Scrutiny Committee's role is to oversee the framework of internal financial control including the assessment of fraud vulnerabilities and to monitor counter fraud strategy, actions and resources.
- 3.6 Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council and demonstrates effective financial stewardship and strong public financial management.

4 COUNTER FRAUD ACTIVITY 2019/20

- 4.1 There were six sessions of Fraud Awareness Training planned in 2019/20. Only three proceeded with cancellations due to SB Cares re-integration to the Council, Peebles High School fire, and Covid-19.
- 4.2 The Audit and Scrutiny Committee requested, following the consideration of the 2018/19 report, that the fraud e-Learning package be made compulsory for all staff. The fraud e-Learning package has been re-written to refresh the information and make it appropriate to all staff. The new module is available; it is included in the Induction programme for new starts. The training module on Business World system might better enable an approach for e-learning targeted at specific groups.

The uptake of these modules is as follows:

<u>E-Learning Resource</u>	<u>2019/20</u>	<u>2018/19</u>	<u>Total</u>
An Introduction to the Bribery Act 2010	35	34	95
Anti-Money Laundering	27	20	63
Fraud Awareness	523	240	1124

- 4.3 As part of the Corporate Fraud programme of work for 2019/20, a fraud vulnerability assessment was carried out in Peebles High School. The one for SB Contracts will need to be rearranged.
- 4.4 The Council supports Police Scotland in their criminal investigations by checking addresses and confirming or providing occupiers names and addresses. There were 474 Police Scotland address checks in 2019/20 (536 in 2018/19). This information is provided under section 21 (paras 2 & 3) Data Protection Act 2018. The Corporate Fraud and Compliance Officer is a member of the Council's Serious and Organised Crime and Contest Officers Group.
- 4.5 The Corporate Fraud and Compliance Officer continues to deal with enquiries from the Scottish Borders Council website page "Report fraud online" or the anonymous telephone reporting line or secure email address which are all available to staff or the public for whistleblowing purposes. Initial fact-finding responses are followed by intelligence gathering and investigations. If substantiated, appropriate action is taken in accordance with the Council's policies and procedures, such as disciplinary or contract management. Where criminal activity is suspected, referrals will be made to Police Scotland; no criminal investigations are ongoing. The number of whistleblowing referrals remains in the low single figures annually.
- 4.6 The Corporate Fraud and Compliance Officer is a member of the Scottish Local Authority Investigators Group (SLAIG) to represent Scottish Borders Council. He attends SLAIG's quarterly meetings as a forum for sharing best practice across Councils and the wider public sector, thus ensuring his knowledge of emerging fraud risks and issues is up to date.
- 4.7 The Corporate Fraud Steering Group (Integrity Group) held bi-annual meetings to consider and agree counter fraud improvement actions and to monitor their implementation. This forum is chaired by the Chief Officer Audit & Risk. Any lessons learned from identified incidents shared by other Councils were discussed and actions were agreed as appropriate. This included a presentation by DCI Richard Hutton from Police Scotland's Counter Corruption Unit that highlighted the emerging risks to Local Authorities and some key lessons across Scotland.
- 4.8 The Council continues to meet the minimum policy framework set out in the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)'. The policies refreshed during the period include the Anti-Money Laundering Policy and Code of Conduct for Employees. CGI are in the process of re-writing the Cyber Security Policy following the recent appointment of a member of staff with that responsibility.
- 4.9 The Diagram A illustrates the Council's current self-assessment against the Counter Fraud Maturity Model, used as a best practice framework for self-assessment purposes, taking into account the counter fraud activity during the year. There is no significant change during 2019/20.
- 4.10 Scottish Borders Council continues to participate in the National Fraud Initiative (NFI) which is a UK wide counter fraud exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error. The Chief Officer Audit & Risk acts as the Council's Key Contact for NFI. The Corporate Fraud and Compliance Officer has coordinated the submission of the required data sets from various Council systems and responded to the data matches received with input from relevant Services across the Council.

5 OUTCOMES OF COUNTER FRAUD ACTIVITY 2019/20

- 5.1 All frauds and irregularities greater than £5,000 must be reported to Audit Scotland. There were no frauds greater than £5,000 during 2019/20. Though this is an important performance indicator of how effective the Council's fraud prevention and detection measures are, this report includes all known frauds.
- 5.2 There were 15 investigations not linked to NFI that were concluded in 2019/20 (15 in 2018/19). None of these resulted in a prosecution or identified any serious fraud. Of these, 7 cases were referred for further action by others (e.g. Human Resources, Adult Protection, Department for Work and Pensions), 5 resulted in the withdrawal of service, and no action was necessary in 3 cases.
- 5.3 Email phishing continues to be the most frequent method of attempted fraud. The actual number of phishing emails are not recorded; however, senders are routinely blocked and reported to the Council's IT provider, CGI. New measures to quarantine suspicious emails have been introduced and there have been no recorded instances of any loss to the Council due to phishing. Staff are regularly reminded of the dangers posed by phishing.
- 5.4 Mandate Fraud is the second most attempted fraud against Scottish Borders Council whereby fraudsters send forged emails or letters requesting changes to bank details and purporting to be from suppliers. Processes have thus far prevented any financial loss from this type of attempted fraud.
- 5.5 The outcomes of Scottish Borders Council's participation in the National Fraud Initiative 2018-2019 (as at 04.04.2020) are as follows:-

Type	Data Matches	Matches Reviewed	Fraud or Error Detected	Outcome (overpayment)	Estimated Savings	Total Savings
Council Tax Discount	1168	1168	340	£81,566	£162,637	£244,203
Housing Benefit	517	495	10	£17,933	£6,637	£24,570
Payroll and Pensions	472	80	1	£708	£5,791	£6,499
Blue Badge	154	2	0			
Residential Care Homes	29	29	3	£18,824	£23,615	£42,439
Personal Budgets	58	40	0			
Council Tax Reduction	641	197	0			
Creditors	2437	1778	11	£29,014		£29,014
Total						£346,725

- 5.6 The amount of Fraud and Error identified for Council Tax Discount is not an indication of increased levels of fraud. It is primarily due to Customer Services taking a canvas of Council Tax Discounts in February 2019 and the associated checking to determine whether these discounts were claimed legitimately.

6 COUNTER FRAUD NEXT STEPS 2020/21

- 6.1 The Corporate Fraud & Compliance Officer will continue to deliver Fraud Awareness Training for Service Managers and carry out Fraud Vulnerability Assessments where appropriate. Where possible, these are linked to scheduled work included in the Audit Plan.

- 6.2 The introduction of new functionality within the Business World ERP System has allowed a more systematic approach to checking fraud. A set of automated continuous compliance checks will be developed.
- 6.3 Plans to develop a central corporate record of Gifts and Hospitalities and Register of Interests as reported in 2018/19 have not progressed as anticipated. In the meantime, the current process will be refreshed and Managers will be asked to undertake a review thereof.
- 6.4 The Council will continue to participate in the National Fraud Initiative. Data for the 2020 exercise will be provided to the Cabinet Office and Audit Scotland from October 2020 to December 2020. The timetable and required datasets, some of which will be new and are likely to be associated with the economic support activity in response to Covid-19, are expected to be published in June 2020.

7 IMPLICATIONS

7.1 Financial

Effective internal control systems are designed to prevent and detect fraud and this contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. The Corporate Fraud and Compliance Officer 1.0 FTE post is included within the Audit & Risk service budget; the current postholder on his request, and in line with HR policy, is working reduced hours 0.71 FTE. Any additional costs arising from enhanced fraud risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

7.2 Risk and Mitigations

The process of identifying fraud risks is based on the principles of the Corporate Risk Management Policy and Framework. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Corporate Fraud Steering Group (Integrity Group), and regular communications and training are offered by the Corporate Fraud and Compliance Officer. Oversight is provided by the Audit and Scrutiny Committee.

7.3 Integrated Impact Assessment

Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation. This is a routine good governance report for assurance purposes, not a new or revised policy or strategy for decision and, as a result, completion of an integrated impact assessment is not an applicable consideration.

7.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

7.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

7.6 Rural Proofing

This report does not relate to a new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

7.7 Changes to Scheme of Administration or Scheme of Delegation

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

8 CONSULTATION

- 8.1 The Corporate Fraud Steering Group have been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.
- 8.2 This report has been presented to the Corporate Management Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 8.3 The Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been incorporated.

Approved by

Jill Stacey
Chief Officer Audit & Risk

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036
Gary Smith	Counter Fraud and Compliance Officer Tel: 01835 826573

Background Papers: Scottish Borders Council's Counter Fraud Policy Statement and Counter Fraud Strategy

Previous Minute Reference: Audit and Scrutiny Committee 13 May 2019

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

Contact us at gsmith3@scotborders.gov.uk



INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2019/20

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

23 June 2020

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to the Audit and Scrutiny Committee the Internal Audit Annual Assurance Report for the year to 31 March 2020 which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Council's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, provides an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement. This is in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance.
- 1.3 The Remit of the Audit and Scrutiny Committee indicates that it should ensure an adequate framework of internal control, risk management and governance throughout the Council.
- 1.4 To meet the requirements of the PSIAS the Internal Audit Annual Assurance Report 2019/20, at Appendix 1, includes the annual Internal Audit opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.
- 1.5 The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control, governance and risk management within the Council are operating satisfactorily.
- 1.6 The Internal Audit Annual Assurance Report 2019/20 has been used to inform the Chief Executive's Annual Governance Statement 2019/20.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Considers the Internal Audit Annual Assurance Report 2019/20 (Appendix 1) and provides any commentary thereon.**
 - b) Agrees that the Internal Audit Annual Assurance Report 2019/20 be published on the Council's website.**

3 BACKGROUND

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require Internal Audit to have suitable operational independence from the organisation.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) 2017 require that:
"The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
The annual report must incorporate:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."
- 3.3 The Remit and Terms of Reference of the Audit and Scrutiny Committee indicate that it should:
- Ensure adequate framework of internal control, risk management and governance throughout the Council
 - Encourage propriety and probity throughout the Council
 - Assist in accountability to stakeholders

4 INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2019/20

- 4.1 The Internal Audit Annual Assurance Report 2019/20, at Appendix 1, includes the Chief Officer Audit & Risk's independent and objective opinion regarding the adequacy and effectiveness of the Council's governance, risk management and internal controls. It also provides details of the Internal Audit activity that supports the opinion and of the performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.
- 4.2 The Internal Audit Annual Assurance Report 2019/20 provides assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Council's Corporate Plan and has been used to inform the Chief Executive's Annual Governance Statement 2019/20.

5 IMPLICATIONS

5.1 Financial

- (a) It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit during 2019/20 through improved internal controls and governance arrangements.

- (b) The net cost (projected outturn at January 2020) of the Internal Audit service was £257k (2018/19 £254k). The majority of service expenditure relates to staff costs (99%) for resources comprising Chief Officer Audit & Risk (50% recharged to Midlothian Council to reflect the shared services arrangement), Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors. These resources are for the provision of Internal Audit services to Scottish Borders Council, the Scottish Borders Council Pension Fund, the Scottish Borders Health and Social Care Integration Joint Board, and SB Cares until its reintegration into the Council from 1 December 2019.

5.2 Risk and Mitigations

- (a) The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. Each Internal Audit engagement has been risk-based and, where appropriate, has tested the specific Service's management of risk.
- (b) Internal Audit provides assurance to the Corporate Management Team and the Audit and Scrutiny Committee on the adequacy and effectiveness of internal controls, governance and risk management within the Council, highlights good practice and recommends improvements. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and range and breadth of audit areas for inclusion within the Annual Plan. There is effective liaison between Internal Audit and the Corporate Risk Officer on an on-going basis to ensure that risks are considered in every audit and risk reviews take account of findings and improvements arising from Internal Audit work.
- (c) Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated actions complemented by the implementation of Audit recommendations.
- (d) It is anticipated that further improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls and governance arrangements.
- (e) Delivery of the Internal Audit services in conformance with the PSIAS will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

5.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

- 6.1 As the Chief Officer Audit & Risk is required to give an independent opinion on the Council's governance, risk management and internal controls, full consultation on Appendix 1 is not appropriate.
- 6.2 The Corporate Management Team has been advised to take into account the work of Internal Audit and the independent opinion on the adequacy and effectiveness of the Council's governance, risk management and internal controls when completing the annual self-evaluation and assurance process for the Council's Annual Governance Statement 2019/20.
- 6.3 The Corporate Management Team, the Executive Director Finance & Regulatory, the Chief Legal Officer (Monitoring Officer), the Service Director HR, the Clerk to the Council and the Communications team have been consulted on this cover report and any comments received have been incorporated.

Approved by

Jill Stacey, Chief Officer Audit & Risk **Signature**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 13 May 2019

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Contact us at Internal Audit intaudit@scotborders.gov.uk

Chief Officer Audit & Risk's Annual Assurance Report and Opinion 2019/20 for Scottish Borders Council

1 Introduction

- 1.1 It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines of defence which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line of defence, is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.
- 1.4 The Objectives of Internal Audit are set out in its Charter: As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- In support of the Council's vision, values and priorities.
 - As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.
- 1.5 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
The annual report must incorporate:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."
- 1.6 This Annual Report provides the annual internal audit opinion and summarises the work carried out by Internal Audit during the year to 31 March 2020 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan 2019/20. The report also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

2 Opinion on the systems of Internal Control and Governance

- 2.1 My opinion is that, based on our reviews and knowledge, the systems of internal control, governance and risk management within the Council are operating satisfactorily. A common theme from Internal Audit findings during the year was the importance of Management ensuring that staff undertake training on a wide variety of topics to ensure that they have the up-to-date knowledge to fulfil their role, and to mitigate any associated risks.
- 2.2 Internal Audit reports during the year confirm improvements in internal controls, governance, and risk management through Management-initiated improvements complemented by the implementation of audit recommendations.
- 2.3 Reasonable assurance can be provided on the adequacy of the internal controls and governance arrangements in place. There is adequate awareness and observation of the Council's Local Code of Corporate Governance (approved June 2018) and key governance documents including: Scheme of Administration (approved November 2017; amended January 2020); Procedural Standing Orders (approved March 2020); Scheme of Delegation (approved March 2018; amended March 2020); Financial Regulations (approved November 2018); Procurement and Contract Standing Orders (approved July 2017); and Codes of Conduct for Councillors and for Employees. The policies, procedures and guidelines associated with Financial Regulations are in the process of being updated to ensure they reflect the current operating environment including the Business World ERP system. It is important to ensure that the Council's policies, procedures and guidelines associated with its service delivery are kept up-to-date, in particular as the pace of change increases.
- 2.4 The Chief Officer Audit & Risk facilitates the annual review of the Council's governance arrangements against its Local Code of Corporate Governance carried out by a self-evaluation working group of officers from across the Council's services. The outcomes from the Best Value review was a significant source of assurance during the year. This is part of the process to produce the Annual Governance Statement.
- 2.5 The Council recognises that Risk Management is an integral part of all activities and has Corporate and Service Risk Registers in place, which are subject to regular review by those Managers who are allocated the responsibilities for managing individual risks. The Audit and Scrutiny Committee received presentations from Executive/Service Directors on key risks and mitigations during the year and a Risk Management Annual Report outlining activity against the risk strategy, to fulfil their role of oversight of how risks are managed. Committee reports contain information on the risks and mitigations relevant to the subject matter to support decision-making.
- 2.6 Further improvements in internal controls, governance, and risk management have been agreed by Management, as highlighted in Internal Audit reports and recommendations made during the year or outstanding from previous years.
- 2.7 The significant incident which commenced in late March 2020 in response to the Covid-19 pandemic tested how well the risk management framework is operating. There were examples of innovations, new business processes and solutions, and new technology being embraced in order to deliver services to the community in the Council's role as Category 1 responder with its primary responsibilities to work with other resilience partners to protect life, especially the vulnerable, and to support businesses and the wider public. This was achieved using amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings, conference calls, and systems remote access. Internal Audit were suitably informed of or engaged in changes in governance and internal controls. It will be important for the Council, at the appropriate time, to carry out a post-Covid-19 review, highlight any lessons learned and apply these in practice.

3 Internal Audit Annual Plan 2019/20 Delivery

3.1 The following table shows the analysis of audit days and numbers by audit theme:

	Plan days 2019/20	Actual days 2019/20	Plan Nos. 2019/20	Actual Nos. 2019/20
Corporate Governance	150	162	7	7
Financial Governance	85	205	5	5
ICT Governance	70	40	2	2
Internal Controls	165	190	8	7
Asset Management	45	22	3	3
Legislative and other Compliance	30	50	2	2
Consultancy and Advice	70	36		
Other	75	57		
SBC Total	690	762	27	26
Non-SBC	85	69	3	2
Total	775	831	30	28

3.2 The level of Actual Audit days was higher than plan (107%). This can be attributed to unplanned secondment of Graduate Finance Trainee for the second half of the year which more than offset the extraordinary staff sickness absence during the first half of the year.

3.3 The allocation of audit plan days is not an exact science and some of the audit scopes have been carried out using less than planned days and some using more. The most significant variations are as follows:

- Financial Governance: The review of Business World ERP System Key Controls included additional assurance work associated with the migration of SB Cares processes and transactions back to the Council (Payroll, Sales to Cash, Procure to Pay), and additional testing of processes and transactions associated with new Business World ERP system functionality that had been rolled out across the Council during the year.
- Internal Controls: The planned assurance audit on Assessors was not carried out in agreement with Senior Management to align with system change and development that has been delayed, in part due to the impact of elections during 2019.
- Asset Management: The full scope of the planned assurance audit on Roads Asset Management (roads, bridges, footways, lighting) framework including inspection has been deferred to 2020/21 Audit Plan to align with the phasing of the Roads Service Review in agreement with Senior Management, though assurance was gained from the follow-up on the implementation of previous recommendations.
- Legislative and Compliance: Additional compliance testing on projects and claims as the EU Funded Programmes (LEADER and EMFF) come to the end of their cycle.
- Consultancy: Lesser than anticipated involvement in the implementation phase of the Contract Management Framework. The Contract Management Steering Group was not established once the Working Group was disbanded during 2019 at the end of the development phase.
- Non-SBC: the full extent of Internal Audit planned work associated with SB Cares as an ALEO was not completed due to the transfer of its services back to the Council from 1 December 2019.

3.4 This has not affected the assurance that Internal Audit is able to give.

3.5 The wide range of Internal Audit work performed during the year is listed below:

Corporate Governance Audits

3.6 To provide assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate objectives and priorities within the Council's Corporate Plan, reviews included:

- Corporate Governance (Assessment of progress on implementation of improvement action within the Annual Governance Statement, Annual Evaluation against Local Code of Corporate Governance as part of the Annual Assurance Process, and support for the Audit and Scrutiny Committee's learning and development).
- Information Governance (Review of the framework including roles and responsibilities, policy development and implementation, assess compliance with legislation, and provide annual assurance to Senior Information Risk Owner and Data Protection Officer).
- Performance Management (Validation of the Council's Performance Indicators to ensure accuracy of data submitted on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework).
- Corporate Transformation Programme (Review the new governance and accountability arrangements of the Fit for 2024 corporate transformation programme structure, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money) and evaluation of outcomes and lessons learned).
- Contracting and Procurement (Review of the Contract Management Framework to ensure that there are adequate and effective controls in place over Contract Monitoring arrangements throughout the Council).
- Health and Safety (Assess compliance with relevant legislation and the approach to Health and Safety awareness, including the use of the new system (LEXI), to ensure there are adequate and effective controls in place for health and safety).
- Attendance Management (Review the controls in place to manage short and long-term absences to minimise the impact on service delivery).

Financial Governance Audits

3.7 To provide assurance on the internal financial controls in place and substantive testing of transactions to ensure completeness and accuracy of data in core financial systems, reviews included:

- Business World ERP System Key Controls (An integration of 4 audits to assess key controls of the Business World system for Payroll, Sales to Cash, and Procure to Pay processes and core General Ledger and Management Reporting (Record to Report), assess System Access, test sample of transactions from various data sets).
- Members Allowances (Assess the controls in place to ensure members' remuneration, allowances and expenses are accurate, are paid correctly and timely, and disclosed in accordance with regulations).

ICT Governance Audits

3.8 To provide assurances that computer systems are secure, reliable and conform to nationally agreed standards, reviews included:

- ICT Security Controls (Assess the adequacy of ICT security arrangements including: physical and environmental controls; disaster recovery; third party access; operational controls (change/incident/problem management) and business applications, to ensure they are designed appropriately and that all parties are adhering and complying with them. Review of PSN compliance and Cyber Essentials requirements.

- ICT Business Systems (Review the governance and processes in place to review and redesign computer based systems/business applications outwith the CGI Contract to ensure they are fit for purpose to support service delivery).

Internal Controls Audits

3.9 To provide assurances in relation to a range of the Council's internal controls in areas identified by Management, reviews included:

- Schools – Peebles High School and Priorsford, Kingsland and St Ronan's Primary Schools (Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments, to complement the assurance received from Education Scotland arising from their inspection programme of schools).
- Looked After Children (Assess the governance processes to meet service delivery needs for Looked after Children and the controls in place to evidence sound budgetary control).
- Developer Contributions/Development Management Fees (Review the controls in place over income and expenditure and use of resources, and the commitment from Services to ensure policies and procedures are operating effectively, including conditions within legal agreements and payback of contributions).
- Building Standards Emergency Works (Assess controls in place for emergency works income and expenditure including credit control and performance reporting).
- Adult Social Care Services – Learning Disability Service (Assess the governance and accountability arrangements for Adults with Learning Disabilities to ensure obligations are met to deliver integrated social work and health learning disability services via partnership working).
- SB Contracts (Review the financial and operational controls in place over externally sourced income and operations to ensure sustainability, and evaluate fraud prevention controls and detection processes to ensure fraud risk is managed).
- Homelessness (Assess the progress with the self-evaluation exercise of the Homelessness Service to fulfil its statutory obligations, and the annual assurance process to the Scottish Housing Regulator).

Asset Management Audits

3.10 To provide assurances that Council assets are safeguarded and properly accounted for, and used economically, efficiently and effectively, reviews included:

- Property Asset Management (Assess the Property Management Framework and associated property maintenance programme for its buildings, other property and facilities to ensure they are fit for purpose, and review the completeness and accuracy records to demonstrate efficient and effective use).
- Paths Asset Management (Assess whether risks are identified and effectively mitigated relating to Asset Management issues on managed paths).
- Roads Asset Management (Review progress by Management with the implementation of the outstanding three Internal Audit 2014 recommendations relating to reviewing the Roads Asset Management Plan (RAMP), creating standard operating procedures, and developing performance information on inspections and repairs).

Legislative and Other Compliance Audits

- 3.11 To test compliance with the terms of the funders' service level agreements or legislative requirements, reviews included:
- Jedburgh Conservation Area Regeneration Scheme (Examine and evaluate compliance with the scheme rules and contract, specifically: Historic Environment Scotland Clause 5 (Auditing Procedures) of the contract signed 5 April 2017).
 - EU Funded Programmes - LEADER and EMFF (Perform annual audits of EU grant-funded programmes for 2014-2020, Liaison Entre Actions de Développement de l'Économie Rurale (LEADER) and the European Maritime Fisheries Fund (EMFF), under the terms of Service Level Agreements (SLAs) to assess compliance with the requirements of the SLAs and the relevant EC Regulations).

Consultancy Work

- 3.12 The most significant piece of consultancy work, requested by the Chief Executive, was the examination and evaluation at a high level of the objectives, benefits and expected outputs from the original business case for SB Cares. This included the identification and evaluation of the mechanisms in place to review how SB Cares is performing and how it fits with Council and communities' priorities, and consideration of any changes in the operating context from the assumptions made in the original business case. This Internal Audit Consultancy work was referred to within the report to the Council on the 26 September 2019 by the Chief Executive; "Strategic Review of SB Cares – Future Provision of Adult Social Care Services".
- 3.13 In its 'critical friend' role, Internal Audit:
- Provided internal challenge and advice to Managers through engagement in a number of forums as the Council continues to transform its services (for example, Capital Programme Board – Corporate Landlord, Fit for 2024 Transformation Programme Board, Older People's Strategy Board, Digital Customer Steering Group, and Information Governance Group);
 - Engaged in the design and development of the Public Protection Unit to support improvement;
 - Provided independent challenge of the evidence to support improvement arising from the Joint Older People Services inspection; and
 - Engaged in the consultation on the SEEMIS Early Years System Business Case.
- 3.14 During the year Internal Audit responded to a number of requests for ad hoc advice and assistance on internal controls, risk management and governance. One significant activity was providing advice for policy development (School Fund, Purchase Cards).
- 3.15 Internal Audit considered and applied National Reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies. This adds value to the Council by influencing and offering ways to enhance the governance and internal control environment in alignment with the Council's strategic priorities.
- 3.16 Following Council decision 26 September 2019 Internal Audit were involved in a working group to reintegrate all of the services presently directly delivered by the ALEO into the Council from 1 December 2019 to provide assurance to the Council.

Other Work

- 3.17 Internal Audit responded to specific control issues highlighted by Managers during the year by incorporating those aspects within specific audit scopes. No significant Contingency Audit activity was required during the year.

- 3.18 Resources were deployed in the delivery of the Follow-up work to check that Internal Audit recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance. In light of the additional Service pressures on Management arising from the Council's emergency response on Covid-19, Internal Audit approved an automatic 3-month extension to target dates for all open audit actions, noting that none of them related to key control risks but were rather improvements to systems and processes. The following table highlights the current position (Source: Pentana performance system as at 03 June 2020) with regards to Internal Audit recommendations arising from current and previous years:

Year identified	Total	Implemented	Not Yet Due	Overdue
2019/20	40	8	32	0
2018/19	4 + 1 SB Cares	4	1	0
2017/18	42 + 2 SB Cares	37	7	0

- 3.19 In collaboration with the Corporate Fraud and Compliance Officer, Internal Audit evaluated fraud prevention controls and detection processes on an on-going basis to ensure fraud risk is considered in every audit, and provided intelligence via data sharing requests from Police Scotland as part of the wider assurance framework on counter fraud and crime controls.

Non SBC Work

- 3.20 The Council's Internal Audit service provided independent assurance on the overall risk management, internal control and corporate governance processes for SB Cares (the adult social care ALEO, until its reintegration to the Council on 1 December 2019), Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. Separate annual audit assurance opinions are reported to their respective Senior Management and Boards, based on the work delivered in accordance with Annual Audit Plans that have been approved by their respective Senior Management and Boards.
- 3.21 Approval was given in November 2018 to continue with Shared Internal Audit Services between Midlothian and Scottish Borders Councils after a 12-month pilot demonstrated positive outcomes including the sharing of expertise and knowledge, and the identification and assessment of best practice across both organisations. The Chief Internal Auditor provides the strategic leadership for the effective delivery of Internal Audit services to their respective client organisations. The Principal Internal Auditors in each Council are in regular contact to share tools and techniques to facilitate the operational practices. There is good liaison between Internal Audit and Corporate Fraud staff across the two Councils to share knowledge of risks and controls relating to specific audits. An Interim Internal Auditor who has extensive Internal Audit knowledge and experience of internal controls and governance of Councils and Integration Joint Boards has been deployed to supplement the Midlothian Council team resources under a contract for services.

4 Public Sector Internal Audit Standards and Quality Assurance & Improvement Plan

- 4.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) include:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
 - Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress; and Communicating the Acceptance of Risks).
- 4.2 An internal self-assessment of Internal Audit practices against the Standards was carried out in 2019/20, as required by the PSIAS. The minor improvement action arising from the previous year's self-assessment, as set out in the Quality Assurance and Improvement Programme (Review of working papers needs to be evidenced, consistently) has been adequately progressed.
- 4.3 The 2019/20 self-assessment against the PSIAS carried out in March 2020 has indicated that Internal Audit either 'Fully Conforms' or 'Generally Conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards. The one minor housekeeping matter in the current Quality Assurance and Improvement Programme is: Final quality checking of working papers by Auditors to enable Audit File Review needs to be consistently applied. This minor improvement action is in progress.
- 4.4 The Public Sector Internal Audit Standards (PSIAS) requires the self-assessment to be subject to an External Quality Assessment (EQA) every five years, by appropriately qualified and independent reviewers. An 'EQA Peer Review Framework' was developed by the Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG) to achieve this, which is now in its second cycle. The SLACIAG Schedule of Reviews indicates Scottish Borders Council is to have its EQA Peer Review by North Lanarkshire Council in 2020. The EQA had to be postponed from March 2020 due to Covid-19 emergency response though it needs to be completed by October 2020 to ensure it is within the required every five years.

Jill Stacey BA(Hons) ACMA CGMA
Chief Officer Audit & Risk
03 June 2020

ANNUAL GOVERNANCE STATEMENT 2019/20

Report by Chief Executive

AUDIT AND SCRUTINY COMMITTEE

23 June 2020

1 PURPOSE AND SUMMARY

- 1.1 This report proposes that the Audit and Scrutiny Committee considers and approves the Annual Governance Statement that will be published in the Council's Statement of Accounts 2019/20.**
- 1.2 The CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code of Corporate Governance, and prepare a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.
- 1.3 Part of the Audit and Scrutiny Committee's remit (Audit function) is to assess the effectiveness of internal controls, risk management, and governance arrangements.
- 1.4 The Annual Governance Statement 2019/20 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provides details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and overall opinion.
- 1.5 In terms of overall corporate governance it is the Chief Executive's opinion that, although there are a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered sound.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Considers the details of the Annual Governance Statement 2019/20 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledges the actions identified by Management to improve internal controls and governance arrangements; and**
 - b) Approves that it be published in the Council's Statement of Accounts 2019/20.**

3 BACKGROUND

- 3.1 Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 3.2 The Council approved a revised Local Code of Corporate Governance on 28 June 2018, on recommendation by this Committee, consistent with the principles and requirements of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) which helps to ensure proper arrangements continue to be in place to meet these responsibilities.
- 3.3 Fundamentally Corporate Governance is about openness, integrity and accountability. It comprises the systems and processes, and cultures and values by which the authority is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its communities.
- 3.4 The CIPFA/SOLACE Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 3.5 Part of the Audit and Scrutiny Committee's remit (Audit function) is to assess the effectiveness of internal controls, risk management, and governance arrangements in place. This includes to 'Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives'¹.

4 ANNUAL GOVERNANCE STATEMENT 2019/20

- 4.1 In March 2020 the officer Governance Self-Assessment Working Group (the 'Group') undertook, mostly in a virtual manner, the annual self-assessment of the effectiveness of internal control and governance arrangements and compliance against the Local Code for the year ended 31 March 2020. The Chief Officer Audit & Risk led on this process as part of HIA² role to be champion for sound governance.
- 4.2 The Group has considered examples of evidence to demonstrate compliance with the Framework's seven core principles of good governance, supporting principles and a range of specific requirements as set out in the Local Code. The Group has evaluated progress with implementation of prior year improvement actions, and taken into account the recommended improvements within the Best Value audit report.
- 4.3 The Annual Governance Statement 2019/20 at Appendix 1, in compliance with the CIPFA/SOLACE Framework, provides details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and overall opinion.
- 4.4 In terms of overall corporate governance it is the Chief Executive's opinion that, although there are a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered sound. The Annual Governance Statement 2019/20 is informed by the self-assessment of compliance against the Local Code by the officer Governance Self-Assessment Working Group, the work of Internal Audit, External Audit and Inspection agencies, and by Executive / Service Directors' assurance statements.

¹ CIPFA guidance note for local authorities 'Audit Committees' (2018)

² CIPFA 'the role of the head of internal audit in public sector organisations' (2019)
Audit and Scrutiny Committee 23 June 2020

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications arising from this report.

5.2 Risk and Mitigations

The Annual Governance Statement 2019/20 details areas where additional work would further enhance the internal control environment, or improve risk management, and corporate governance arrangements.

5.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014. This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

5.4 Acting Sustainably

Core principle of good governance "C. Defining outcomes in terms of sustainable economic, social, and environmental benefits" is included within the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). The officer Governance Self-Assessment Working Group considered examples of evidence to demonstrate local compliance with all the Framework's seven core principles of good governance, supporting principles and a range of specific requirements.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

This report does not relate to a new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

6.1 The Corporate Management Team has been engaged in the governance annual assurance process 2019/20 and has been consulted on this report and any comments received have been incorporated.

6.2 The Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been incorporated.

Approved by

Chief Executive, Tracey Logan

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036

Background Papers: CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'; Scottish Borders Council Local Code of Corporate Governance

Previous Minute Reference: Audit and Scrutiny Committee 13 May 2019

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

Annual Governance Statement 2019/20

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2020, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of Scottish Borders Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

The system can only provide reasonable and not absolute assurance of effectiveness.

Framework for Good Governance

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (Spring 2016) is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The CIPFA/SOLACE Framework defines the seven core principles of good governance, namely:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016), was approved by Council on 28 June 2018.

The Governance Framework

The key elements of the Council's governance arrangements, as set out in the Council's Local Code of Corporate Governance, include:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in procedural standing orders, scheme of administration, scheme of delegation, and financial regulations which are regularly reviewed and revised where appropriate.

Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. An annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.

The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

Professional advice on the discharge of statutory social work duties is provided to the Council by the Chief Social Work and Public Protection Officer (CSWO). The CSWO promotes values and standards of professional practice and acts as the 'agency decision maker' taking final decisions on a range of social work matters including adoption, secure accommodation, guardianship, etc.

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.

Unless confidential, decisions made by Council, the Executive Committee or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users, for example via Citizen Space. The Scottish Borders CPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Community Planning Partnership, of which the Council is a partner, has a Community Plan (the Local Outcomes Improvement Plan (LOIP)) underpinned by 5 Locality Plans which were developed through Area Partnerships. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the new Corporate Plan 2018-2023 which suggests where individuals, families, businesses, partners and communities can "play their part" to improve outcomes for the Scottish Borders #YourPart.

Asset management planning (which continues to be developed) and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision. The Council has put arrangements in place to comply with key elements of the Community Empowerment Act.

Equalities as well as environmental and rural implications are considered during the decision making process to promote fair access to services.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Decision makers receive detailed information indicating how intended outcomes would be achieved together with the risks, financial and other implications associated with the proposals, by way of the compulsory sections of the Committee report.

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services.

The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council's Corporate Plan.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The corporate management structure consists of the Chief Executive and nine Executive/Service Directors. The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance review and development (PRD) process in place during the year but subject to review and change.

The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision-making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.

The Elected Members Induction Programme is periodically supplemented by additional training and an annual programme of learning and development and briefings. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

F. Managing risks and performance through robust internal control and strong public financial management

The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee and the Audit and Scrutiny Committee (Scrutiny function) for reviewing policy decisions.

The Council has a risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.

The Executive Director Finance & Regulatory (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.

The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively.

A Medium Term Financial Strategy, and associated Risk Register, and plans for revenue (5-year) and capital (10-year) based on corporate priorities are developed, led by the Corporate Management Team, and presented for approval by Council in February each year, along with the Corporate Transformation Programme proposals.

Revenue and Capital Budget Monitoring reports are presented to the Executive Committee on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The independent and objective audit opinion of the Chief Officer Audit & Risk (Chief Audit Executive) within the Internal Audit Annual Assurance Report 2019/20. This is based on work carried out by an in-house team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies including associated Action Plans for improvement. The Audit and Scrutiny Committee (Audit function) is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Quarterly Performance Reports were presented to the Executive Committee for monitoring and control of the achievement of strategic priorities and key performance indicators.

The Annual Accounts and Report for 2019/20, setting out the financial position in accordance with relevant accounting regulations, are being prepared.

Review of Adequacy and Effectiveness of the Council's Governance Framework

An annual review of the adequacy and effectiveness of the Council's overall governance framework is carried out. The output is this Annual Governance Statement which is presented to the Audit and Scrutiny Committee.

The review was informed by assurances from the: Governance Self-Assessment Working Group; Executive/Service Directors; Internal Audit annual opinion and recommendations; comments and recommendations made by External Auditors and other external scrutiny bodies and inspection agencies; and findings and recommendations within the Accounts Commission's Best Value Assurance Report for Scottish Borders Council (published October 2019).

Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where improvement in governance arrangements can be made.

The Scottish Borders Council Best Value Assurance Report, published in October 2019, provided a range of findings following an intensive process of scrutiny of the Council's Vision & Strategic Direction, Performance, Use of Resources, Partnership Working and Continuous Improvement. Scottish Borders Council had welcomed the scrutiny of the 2019 Best Value Assurance audit, providing an opportunity to showcase the Council's achievements and further strengthen the ongoing ambitious improvement programme with valuable external perspectives. In response to the audit findings, senior officers had developed an Action Plan. The Council at its meeting on 19 December 2019 approved the 'Best Value Audit Action Plan' to address the recommendations (1-7 below) in order to demonstrate Best Value:

- 1) Embed a culture of Continuous improvement by implementing a corporate approach to self-evaluation and benchmarking.
- 2) Seek to improve partnership working with NHS Borders in order to support the strategic objectives of the Integration Joint Board.
- 3) Improve how the Community Planning Partnership involves communities and the third sector, through greater involvement in local decision-making and by accelerating implementation of the Community Empowerment Act.
- 4) Establish a structured programme of ongoing staff consultation and engagement.
- 5) Update its people plan for 2017-21 and ensure longer-term workforce plans are reflected in service and financial plans.
- 6) Support members' Continuing Professional Development by tailoring training to meet their individual needs and use technology to make training more accessible.
- 7) Ensure performance reports to members and the public are more comprehensive, balanced and that they cover service performance and the delivery of the Fit for 2024 programme.

Significant progress has been made on implementing the Best Value Action Plan improvement actions that underpin the recommendations though not all of these are yet fully implemented. Progress updates on the implementation of the Best Value Action Plan will be presented to the Audit and Scrutiny Committee.

In addition, other improvement actions (8-12 below) have been agreed during the year that are not specifically covered by the above in order to enhance governance and internal controls:

- 8) Increase the pace of the Fit for 2024 transformation programme through a consistent approach to enable delivery of efficient and effective services to customers in a sustainable way, collaboration with communities and other partners, optimised utilisation of assets across localities, digitally-led process improvement, and focus on delivering positive outcomes.
- 9) Refresh the Performance Management Framework to include oversight by Directorates to ensure performance monitoring and reporting is accurate, robust and provided on time.
- 10) Ongoing review of policies, procedures and guidelines to ensure they are fit for purpose, specifically those relating to business critical services to ensure they meet current legislation.

These actions to enhance the governance arrangements in 2020/21 will be driven and monitored by the Corporate Management Team on a regular basis in order to inform the next annual review. Internal Audit work planned in 2020/21 is designed to test compliance and improvements.

Conclusion and Opinion on Assurance

The conclusion from the review activity outlined above and our opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council's systems of internal control and governance. Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in all significant respects. Systems are in place to regularly review and improve governance and systems of internal control.

Covid-19 Response

The above assurance opinion reflects the assessment of governance in place during normal operations in 2019/20 prior to the significant coronavirus (COVID-19) outbreak in late March 2020. The latter clearly had an impact on business as usual in the delivery of services. The Council moved to Critical Service delivery on the evening of Monday 23 March 2020 following the announcements by the First Minister and Prime Minister on new coronavirus restrictions. This means that as a Category 1 responder the Council's primary responsibilities are working with other resilience partners to protect life, especially the vulnerable, and to support businesses and the wider public, and as such local authority workers are part of the essential response during the COVID-19 outbreak.

The Council approved at a meeting held via teleconference on 26 March 2020 some additions to Standing Orders and thus endorsed a more agile way of decision-making for urgent decisions within its governance arrangements, whilst ensuring the safety of officers, elected members and the community. All formal Council and Committee meetings had been cancelled, and further decision-making responsibility was delegated to the Chief Executive, in consultation with the Convener, the Leader, and the Leader of the Opposition, on a temporary basis during the COVID-19 outbreak.

New innovations, business processes, and technology solutions have been embraced in order for the Council to deliver vital services to the community in its Category 1 responder role. In addition to delivering key core services the Council has had to develop and operate a variety of brand new initiatives to support key workers and also those most at risk in the area. This is part of the national response with some funding provided by Scottish Government. For example, Non Domestic Rates reliefs including the Business Grants Scheme, Hardship Fund, Scottish Welfare Fund, Food Fund, and Supporting Communities Fund.

The logistics of delivering services in a radically different way, in order to keep staff safe, and adhere to social distancing and self-isolation measures at the same time, has meant significant changes in when and where services are provided, deployment of a large number of staff who do not deliver critical services to undertake alternative duties, rapidly modernised IT support, and significant partnership working across the community. This was achieved using amended governance arrangements, new ways of decision-making, leadership and implementation including daily COVID-19 Strategic Group virtual meetings, conference calls, systems remote access, and regular staff briefings.

Initial work is underway on assessing the financial impact on the Council and the longer-term disruption and consequences arising from the significant coronavirus (COVID-19) outbreak. Furthermore there has been invaluable learning from operating in this unprecedented period of change, challenge and uncertainty which will be of benefit during the recovery phase that will also pose its challenges. The current COVID-19 pandemic will have a fundamental impact on the way the Council is organised and delivers services going forward with the Fit for 2024 programme instrumental in ensuring the Council builds on all transformational benefits the pandemic presents including digital advancements.

Tracey Logan
Chief Executive
mm 2020

Councillor Shona Haslam
Leader of the Council
mm 2020

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DRAFT PENSION FUND UNAUDITED ANNUAL REPORT AND ACCOUNTS 2019/20

Report by Executive Director Finance and Regulatory

AUDIT AND SCRUTINY COMMITTEE

23 June 2020

1 PURPOSE AND SUMMARY

- 1.1 This report provides the Committee with an opportunity to scrutinize the Draft unaudited Annual Report and Accounts for the Pension Fund for 2019/20 tabled prior to their submission to the External Auditors.**
- 1.2 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specify the elements which must be contained in the Annual Report and Accounts, the list of these are contained in para 4.1. The draft Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 The draft unaudited Annual Report and Accounts were presented to the Joint Pension Fund Committee and the Pension Fund Board on 22 June 2020 for approval of submission to External Auditors and publication for Inspection by the statutory deadline of 30 June 2020.
- 1.4 The draft Report and Accounts are still subject to statutory Audit, which will commence early July 2020. Following the statutory Audit process the final Report and Accounts will be submitted to the joint Committee and Board to review and of recommendation for approval.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Scrutiny Committee notes the Draft Unaudited Pension Fund Annual Report and Accounts for 2019/20.**

3 BACKGROUND

- 3.1 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specifies that the Annual report must contain:
- a) report on the management and financial performance during the year,
 - b) statement on the investment policy for the Fund,
 - c) pensions administration arrangements during the year,
 - d) actuarial valuation statement,
 - e) governance compliance statement,
 - f) fund account and net asset statement,
 - g) annual report on pension administration strategy, and
 - h) details of where to access current Funding Strategy Statement and Statement of Investment Principles.

4 ANNUAL REPORT AND ACCOUNTS 2019/20

- 4.1 The draft unaudited Annual Report and Accounts for 2019/20 (the Annual Report) is attached at **Appendix 1**. The Annual Report will also be submitted to Joint Pension Fund Committee and Pension Fund Board on the 22 June 2020 for approval of submission to the external auditors, Audit Scotland, by 30 June 2020.
- 4.2 The Annual Report will also be made available for public inspection for a 3-week period commencing 30 June 2020.
- 4.3 It should be noted that the Annual Report remains draft and the conclusion of the year end including the external audit may result in changes to it.
- 4.4 The Committee will receive a copy of the final report at the end of the statutory external audit process prior to its submission to Council and publication.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this proposal.

5.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risk are managed in line with the Corporate Risk Management framework, with risks and controls monitored and reported on a quarterly basis.

5.3 Integrated Impact Assessment

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

5.4 **Acting Sustainably**

There are no direct economic, social or environmental issues with this reports which would affect the Council's sustainability.

5.5 **Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

5.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the contents of this report.

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

No changes are required as a result of this report.

6 **CONSULTATION**

6.1 The Chief Legal Officer (Monitoring Officer), the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been included in the report.

6.2 The Joint Pension Fund Committee and Pension Fund Board will consider the Annual Report and Accounts on 22 June 2020. Any comments from this will be reported at the meeting.

Approved by

David Robertson
Executive Director Finance & Regulatory

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension and Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Audit and Scrutiny Committee, 25 June 2019

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

Contact us at Pension & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 PSA
Tel: 01835 825249
email: t&cteam@scotborders .gov.uk

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**SCOTTISH BORDERS
COUNCIL PENSION FUND**

**UNAUDITED ANNUAL
REPORT AND ACCOUNTS**

FOR THE YEAR TO 31 MARCH 2020

CONTENTS

	Page
Section 1 Introduction	
Chairman's Report	4
Management Commentary	5
Key Trends	8
 Section 2 Governance	
Scheme Administration	10
Scheme Governance	10
Risk Management	12
Training Policy & Practice Statements	13
Governance Compliance Statement	14
Annual Governance Statement	19
 Section 3 Financial Statements	
Statement of Responsibilities	26
Fund Account	28
Net Asset Statement	29
Notes to the Accounts	30
 Section 4 Administration	
Administration Strategy	62
Administration Performance	62
Fund Membership	65

	Communications Policy and Performance	67
Section 5	Funding	
	Funding Strategy Statement	70
	Actuarial Statement	71
Section 6	Investment	
	Statement of Investment Principles	75
	Investment Strategy	76
	Investment Performance	80
	Responsible Investment	82
Section 7	Independent Auditor's Report	86

Contacts

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.

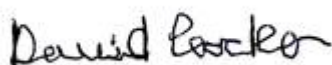
The Committee members have engaged with training events both locally and nationally to expand their knowledge and understanding. All members of the Committee and Board fully met the training requirements.

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 incurred by the Fund.



Chairman, Pension Fund Committee
Scottish Borders Council

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 services 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.

MANAGEMENT COMMENTARY

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 is provided by Scottish Borders Council Pension Fund Board. All key policies and strategies are located on the Funds' 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 are 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.

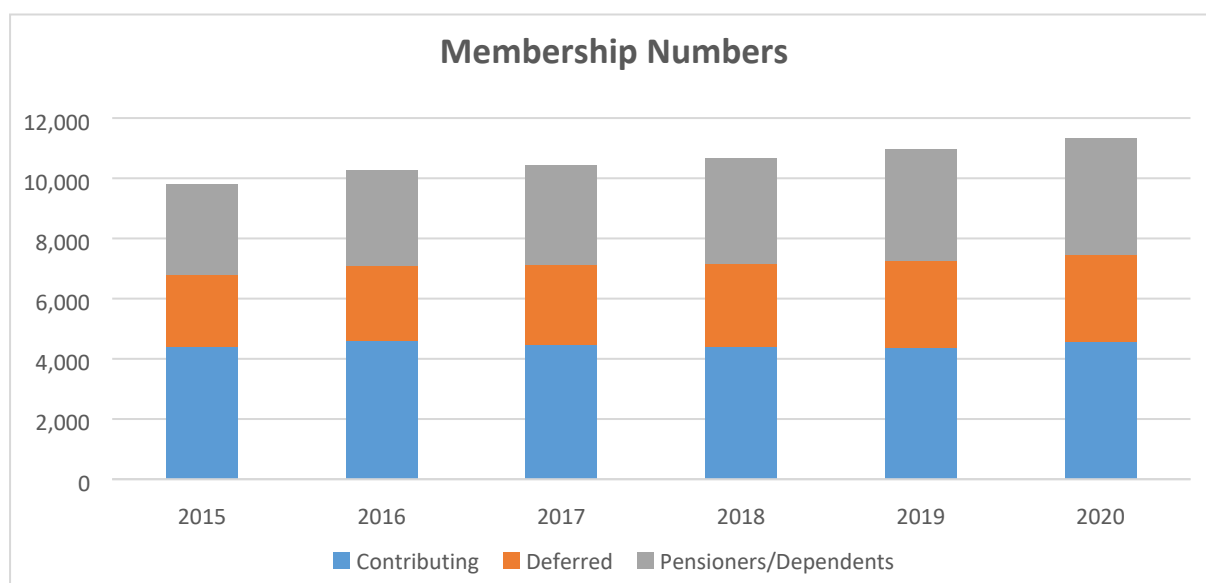
Good progress was also made for implementation of a new self-service facility for members

ADMINISTRATION AND MEMBERSHIP

The Pension Administration Strategy sets out the performance standards required by both Scottish Borders Council, as administering authority and all employers of the Fund. The performance of the Fund against these standards are 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 £21.2m. 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 being 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 Funds' 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 FAQ's, 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 Funds' investments 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.

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.

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 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 Value	541,778	653,207	685,681	731,048	712,320
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)	(344)
Oversight & Governance costs	(217)	(241)	(233)	(289)	(282)
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)

SECTION 2

GOVERNANCE

SCHEME ADMINISTRATION

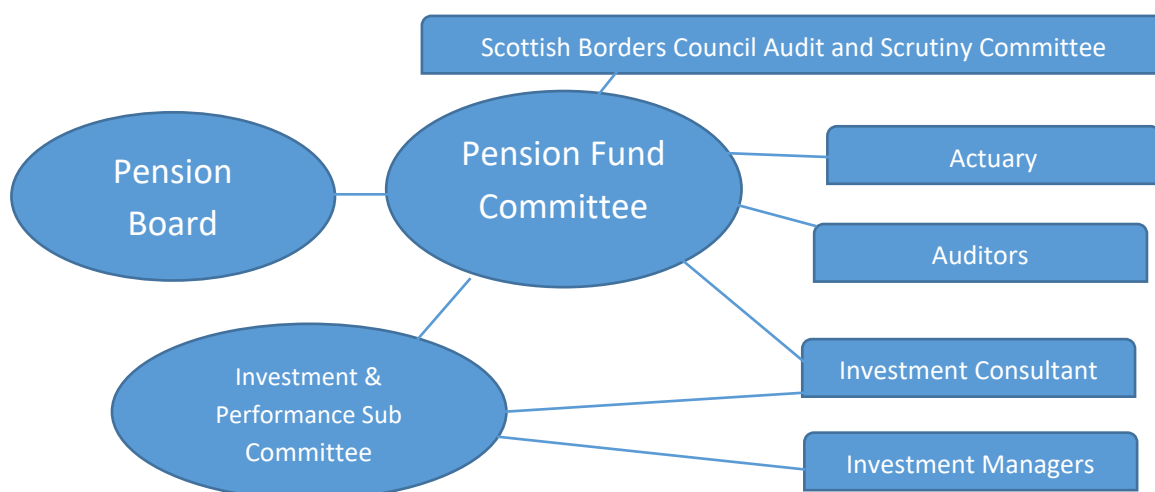
The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority).

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 controls.

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 Board meets jointly with the Pension Fund Committee. This allows consideration of the agenda, presentations and advice from external advisors.

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's 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 on a quarterly cycle. A full review is undertaken annually.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2020

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-

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

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

GOVERNANCE COMPLIANCE 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 Pensions 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, detail of which are set out in the Governance Compliance Statement 2019-20 (page 14 - 16).

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 opinion 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 2002 valuation.

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 (pages 14)

ANNUAL GOVERNANCE 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>

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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	<p>All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June).</p> <p>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.</p>
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	<p>For elected Members this is part of the Council's Code of Governance along with the Members' induction programme.</p> <p>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.</p>
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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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.
Principle		Full Compliance	Comments
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	Yes	The joint meetings of the Pension Fund Committee and Pension Board are quarterly.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

Principle		Full Compliance	Comments
	committees meet at least quarterly		
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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

Principle		Full Compliance	Comments
			Pension Scheme legislation and the requirements of the Pension Regulator.
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.

SECTION 3

FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITIES

The Council's 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

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 & 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 Robertson
Executive Director Finance & Regulatory
Scottish Borders Council

25 June 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)	
(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).

David Robertson CPFA
Executive Director Finance & Regulatory

25 June 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 will be 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 give a summary of the scheme benefits:

Membership up to 31 March 2009		Membership from 1 April 2009 to 31 March 201		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 2018/19 financial year and its position as at the 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* (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.

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 closing business day.
- 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 closing business day.
- 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 43) 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 IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, 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 19, page 55).

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. AVC's are paid to the AVC provider by employers 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.

AVC's 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 POLICES

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. These investments are valued by the investment managers using guidelines set out by the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS.

The value of unquoted investments at 31 March 2020 was £226.3m (31 March 2019 £186.9m).

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 55. 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 OF 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 56)	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 assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> - A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.2m - 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 deficit by £3.9m <p><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	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.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

	a degree of estimation involved in the valuations.	
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6 EVENTS AFTER THE REPORTING DATE

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

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 £'000		2019/20 £'000
17,967	Pension Payments	18,953
3,948	Commutation and lump sum retirement benefits	3,879
879	Lump Sums death benefits	803
22,794		23,635

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

11 MANAGEMENT EXPENSES

2018/19 £'000		2019/20 £'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 £'000		2019/20 £'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 £'000		2019/20 £'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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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 £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value £'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.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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 2019	£'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
Annual Report and Accounts for the year to 31 March 2020

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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 Section 6 - Investments page 80.

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 Funds' 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.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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.

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 £'000	Value on increase £'000	Value on decrease £'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	12.0%	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 £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000		Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000
			Financial assets			
181,533	-	-	Equities	164,635		
371,951	-	-	Pooled Investments	329,466		
98,428	-	-	Pooled Property Investments	97,461		

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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	(20,613)
398	Loans & receivables	112
	Financial Liabilities	
78	Fair value through profit & Loss	96
(156)	Financial liabilities at amortised costs	(2,221)
45,423	Total	(22,626)

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 12. 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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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	8,987
Fixed Interest Securities		-
	7,198	8,987

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:

		Effect on Asset Values	
Asset Type	Value as at 31 Mar 20 £'000	Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	8,987	89	(89)

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.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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	236,558
Diversified Bonds	92,086
Alternatives	50,583
Venture Capital	8,508
Total	387,735

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 on the following page. 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	147,575	9.34%	161,363	133,788
Total Currency *	209,838		230,125	189,552

* 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 mentioned 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
Money Market Accounts			
Aberdeen Standard	AAA	-	-
Standard Life	AAA	-	-
Blackrock	AAA	-	-
Federated	AAA	-	-
Bank Current Accounts			
Bank of Scotland	A+	2,580	2,237
Northern Trust	AA	4,618	8,987
Total		7,198	11,224

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 2019, 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 (the Executive report can be seen in Annex 1 with the 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)	(653.9)
Smoothed Asset Value	490.5	573.3
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.

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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	2.4
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 (joiners)	499	1,498
Sundry Creditors	565	198
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 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 in respect of expenses incurred in administering the Fund. There are no additional related party

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2020

transactions that require to be disclosed. The Pension Fund balance due from 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 25 June 2020. Events taking place after this date are not reflected in the financial statements or notes.

SECTION 4

ADMINISTRATION

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 Regulators 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 below

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.

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%

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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	346	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%
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	-

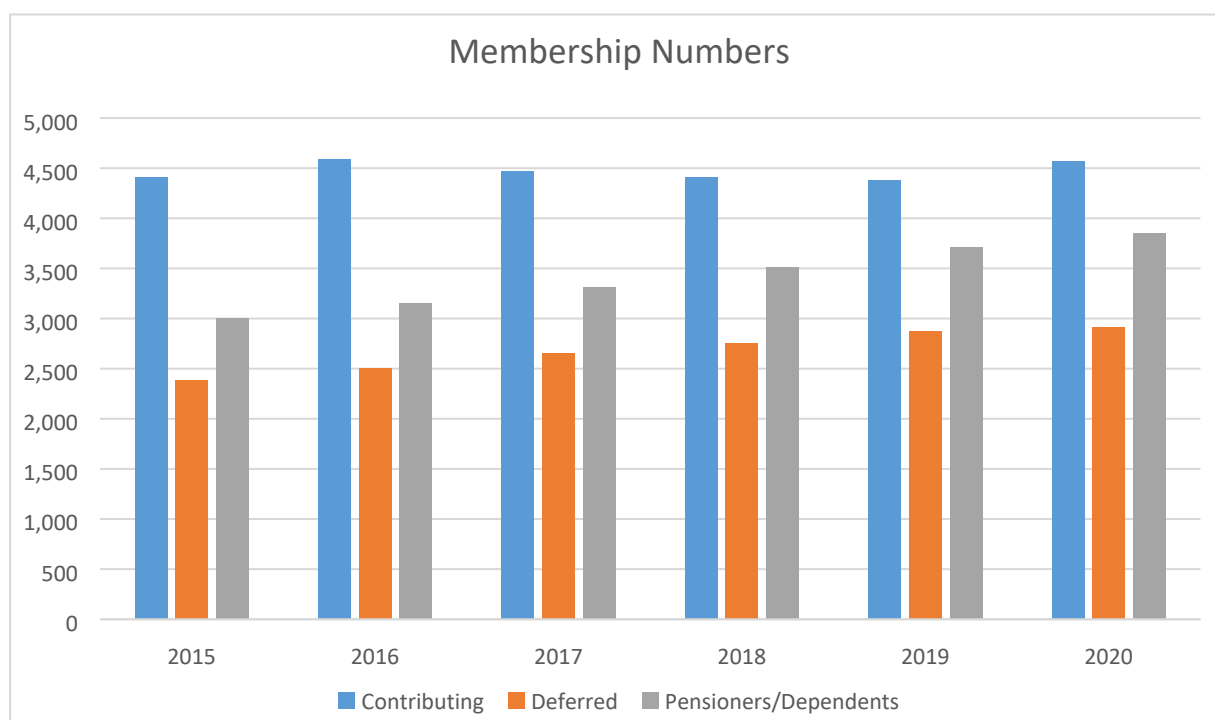
MEMBERSHIP

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.

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:

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020



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
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
CGI (TUPEE Staff only)	31	6	8	45
South of Scotland Enterprise	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 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.

SECTION 5

FUNDING

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-term 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 Funds 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%

Note 19 to the Statement of Accounts on page 55, 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 2019

Note 19 to the Statement of Accounts on page 55, 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 Funds website: [Pension Fund](#)

SECTION 6

INVESTMENTS

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

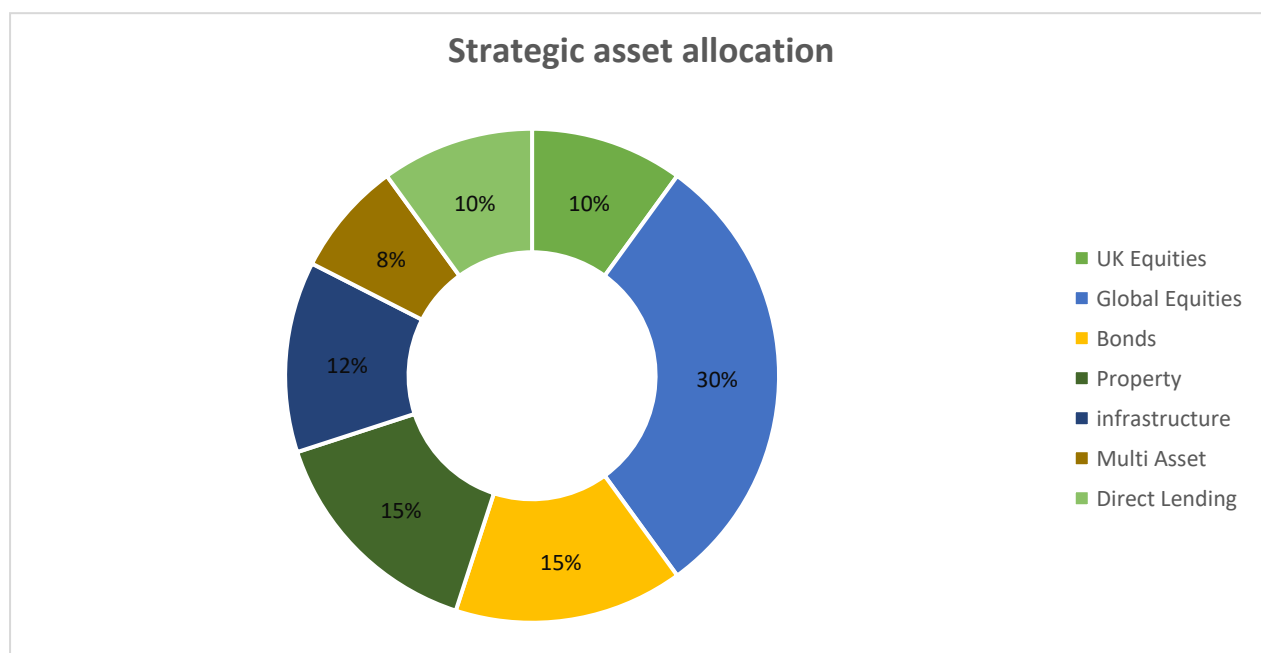
The Fund's investment objective is to support the Funding Strategy by adopting an Investment strategy and structure, which incorporates an appropriate balance between risk and return.

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 below 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:



Brookfield



DALMORE CAPITAL



KKR



OAKTREE

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:

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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 shown 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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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.

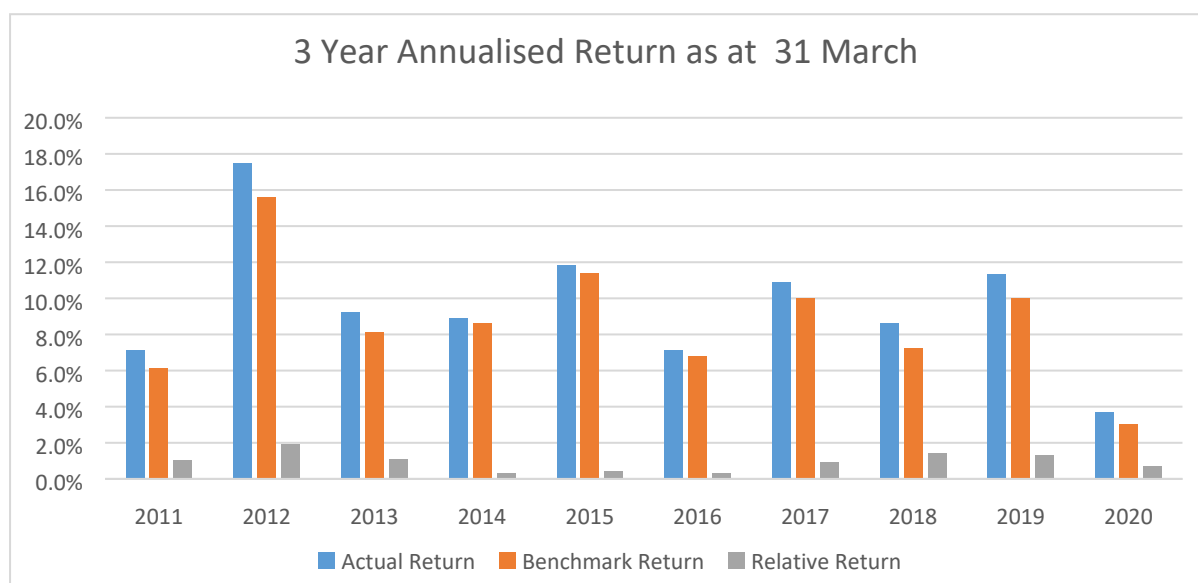
Real assets such as long lease property and infrastructure had a positive if slow performance in Q2 2019 with many deals delayed due to uncertainty around BREXIT. The following two quarters followed a similar pattern with positive returns. Q1 2020 saw a small reduction in valuations due to COVID-19 with 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 has, 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, 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

Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2020

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 UNPRI 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 7

INDEPENDENT AUDITORS REPORT

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	E-mail krobb@scotborders.gov.uk

COVID-19

What it means for public audit in Scotland

Our approach

Context

- Public bodies are under exceptional pressure as they manage the impact of the pandemic.
- Guidance and deadlines for financial reporting have been amended to reflect this.
- It will be some time before we fully understand the impact on public services and finances.

Audit Scotland's principles

- Our approach to audit will be flexible, pragmatic and consistent.
- Sound financial management and effective governance are more important than ever.
- Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances, and we will prioritise quality and independence.
- Our work needs to reflect the impact of COVID-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector.
- We will safeguard the health and wellbeing of our colleagues at all times.

Financial audit

- To reflect the pressure on public bodies, the deadlines for preparing accounts for public bodies are being extended. These changes will impact on timings for audit work and reporting.
- Standard-setters are allowing bodies to streamline the information they provide in performance and accountability reports, but financial statements remain unchanged.
- There is considerable uncertainty and volatility in individual bodies' capacity for reporting and engaging with audit.
- Governance will be a key focus, including the new arrangements put in place by public bodies in response to COVID-19.
- We will work with colleagues, including contracted audit firms, to promote consistency of judgement on complex issues.
- We will maintain audit quality while being flexible about timelines.

Performance audit

- The majority of performance audit work has been paused as we review our work programme and our capacity.
- Those audits that were either completed or very close to completion are being published.
- Others are being reviewed on a case-by-case basis.
- We are reviewing our forward work programme to reflect the new risks and challenges public bodies face.

Resourcing

- We will need to be flexible with our resources to manage the changing timescales and priorities.
- We will seek to mitigate the impact of remote working on our audits.
- The Auditor General for Scotland and the Accounts Commission are considering extending the current audit appointments by a year.

Future COVID-19 audit work

Overview

Audit Scotland is committed to helping Parliament and the public understand how public money has been used during this crisis and ensure lessons are learned for the future.

The complex and dynamic nature of the COVID-19 crisis means we will need to take a phased approach.

Phase 1 (short term)

- Briefing the Scottish Parliament on emerging audit risks linked to the public sector response to COVID-19.
- Considering what this means for our future work programme and the work of the Parliament's Public Audit and Post-Legislative Scrutiny Committee (PAPLS).

Phase 2 (medium term)

- Developing the work programme to consider the impact of COVID-19 on:
 - specific sectors (eg, NHS, further and higher education, justice, local government)
 - policy commitments (eg, early learning and childcare expansion, addressing child poverty)
 - thematic issues raised by COVID-19 (eg, the impact on Scotland's public finances, fraud risk management, inequalities).

Phase 3 (longer term)

- Identifying lessons that can be learnt from the public sector's response.
- Assessing the outcomes achieved from key Scottish Government spending and programmes related to COVID-19.
- Aligning our work programme with the Scottish Government's work to rebuild Scotland's economy, remove inequality and advance wellbeing.

COVID-19

What it means for public audit in Scotland

This report is available in PDF and RTF formats,
along with a podcast summary at:

www.audit-scotland.gov.uk 

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: info@audit-scotland.gov.uk 

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Extract from Audit & Scrutiny Minute – 10 February 2020

10.0 SCRUTINY WORK PROGRAMME

- 10.1 With reference to paragraph 2 of the Minute of 22 August 2019, there had been circulated copies of a report by the Service Director Customer and Communities which presented an update on subjects for Scrutiny review and information as part of the future Scrutiny work programme, to be approved by Council. There were 13 subjects which were due to be taken forward and these were detailed in the appendix to the report. In addition, at the Council meeting held on 19 December 2019, Members agreed that the Audit and Scrutiny Committee would undertake regular monitoring of the implementation of the Best Value Action Plan which had been drafted in response to the findings of the Best Value assurance audit of the Council and this work would be undertaken separately from the Scrutiny Work Programme. With the publication of the information from the Local Government Benchmarking Framework 2018/19 at the end of January 2020, the Chairman had also suggested that the Audit & Scrutiny Committee carry out a follow-up scrutiny of the Council's performance after 6 months of those areas where performance had slipped. However, there were quarterly performance reports provided to the Executive Committee which over a year would cover these indicators. The format of these performance reports was evolving but the Q3 performance report being presented to the Executive Committee on 11 February identified which were LGBF indicators and on what frequency they were being reported.
- 10.2 Given the number of subjects for review, it was unlikely that the Audit & Scrutiny Committee would have time over the coming year to deal with every subject. It was therefore suggested that these should be placed in priority order. When identifying that list, Members also bore in mind the Services which were being covered so that there was an even spread. Councillor Hamilton suggested that with regard to the Grass Cutting regime information, this should also include the effectiveness of any biodiversity measures and this was unanimously accepted.

DECISION

- * **(a) AGREED TO RECOMMEND to COUNCIL the subjects to be included in the Scrutiny Work Programme, as detailed in the Appendix to this Minute, with the subjects to be dealt with in 2020/21 prioritised as follows:-**
- (i) Child Poverty**
 - (ii) Common Ridings and Festivals In-kind support;**
 - (iii) Police Community Action Teams**
 - (iv) Recycling and Waste Policy**
 - (v) Public transport and communities; and**
 - (vi) Balance between 20mph speed limits and street architecture.**
- (b) AGREED that the first update to the Audit & Scrutiny Committee on progress with the implementation of the Best Value Action Plan would be brought to the meeting on Thursday 4 June 2020.**

PROPOSED SCRUTINY WORK PROGRAMME

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER
1.	Child Poverty	<p>Scope: An evaluation of the actions the Council is taking to tackle Child Poverty including Pupil Equity Fund, free school meals, etc.</p> <p>Approach: Initial Scrutiny hearing to determine best methodology and reporting</p>	Stuart Easingwood, Interim Service Director Children & Young People
2.	Common Ridings and Festivals In-kind support	<p>Scope: Review the in-kind support provided to Common Ridings and Festivals by SBC services. <i>(Note: funding of Common Ridings and Festivals is part of the current review of the Community Fund)</i></p> <p>Approach: Initial Scrutiny hearing to determine best methodology and reporting</p>	Martin Joyce, Service Director Assets & Infrastructure
3.	Police Community Action Teams	<p>Scope: Receive information on the current arrangements for the Police Community Action Teams – governance, management, community engagement.</p> <p>Approach: Scrutiny information briefing</p>	Stuart Easingwood, Chief Social Work & Public Protection Officer
4.	Recycling and Waste Policy	<p>Scope: An evaluation of the effectiveness of the Recycling and Waste Policy</p> <p>Approach: Scrutiny hearing</p>	Martin Joyce, Service Director Assets & Infrastructure
5.	Public transport and communities	<p>Scope: An evaluation of the current situation and future plans</p> <p>Approach: Initial Scrutiny hearing to determine best methodology and reporting</p>	Rob Dickson, Executive Director

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER
6.	Balance between 20mph speed limits and street architecture	Scope: An evaluation of the current situation and future plans Approach: Scrutiny hearing	Martin Joyce, Service Director Assets & Infrastructure
7.	Income Management Policy	Scope: Review the Income Management Policy established in 2012 and benchmark current charges against other areas of Scotland. Approach: Initial Scrutiny hearing to determine best methodology and reporting	David Robertson, Executive Director (Finance & Regulatory)
8.	Grass Cutting Regime & Biodiversity	Scope: Receive information on the existing grass cutting regime and the effectiveness of biodiversity plans. Approach: Scrutiny information briefing	Martin Joyce, Service Director Assets & Infrastructure
9.	Responsible Dog Ownership Policy	Scope: Review the implementation of the policy and establish its level of success Approach: Scrutiny hearing	David Robertson, Executive Director (Finance & Regulatory)
10.	Rural Proofing Policy	Scope: Review of the effectiveness of the current Rural Proofing Policy. Approach: Scrutiny hearing	Rob Dickson, Executive Director
11.	Council resources on Roads, including white lining	Scope: A review of the effectiveness of the application of Council resources to the roads network to provide a benchmark for future years for the national Roads Condition Index. Approach: Scrutiny hearing	Martin Joyce, Service Director Assets & Infrastructure

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER
12.	Following the Public Pound – grant evaluations	Scope: An evaluation of the process for grant monitoring and evaluation Approach: Scrutiny hearing	Jenni Craig, Service Director Customer & Communities
13.	Management and Maintenance of Public Halls	Scope: An evaluation of the community contribution to the management and maintenance of public halls, including those managed by Live Borders. Approach: Scrutiny hearing	Rob Dickson, Executive Director
14.	Welfare Fund	Scope: An evaluation of how SBC manages applications alongside other funds Approach: Scrutiny hearing	Jenni Craig, Service Director Customer & Communities