

Public Document Pack



AUDIT AND SCRUTINY COMMITTEE MONDAY, 28 SEPTEMBER 2020

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held on Monday, 28 September 2020 at 10.15 a.m. 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,

21 September 2020

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
AUDIT & SCRUTINY BUSINESS		
4.	Minute. (Pages 5 - 12) Minute of Meeting of the Audit and Scrutiny Committee held on 23 June 2020 to be approved and signed by the Chairman. (Copy attached.)	5 mins
5.	Action Tracker (Pages 13 - 14) To note progress made on the Action Tracker. (Copy attached.)	5 mins
AUDIT BUSINESS		
6.	Risk Management in Services Presentation by Service Director Customer & Communities on the strategic risks facing the Services and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within Services. (Verbal presentation).	30 mins
7.	Best Value Action Plan Consider a report by Chief Executive on progress with the implementation of	15 mins

	the specific actions agreed by Officers and approved by Council in December 2019 to address the Accounts Commission's recommendations in the Best Value Assurance Report Scottish Borders Council published on 22 October 2019. (Verbal presentation)	
8.	Annual Treasury Management Report 2010/20 (Pages 15 - 32) Consider annual report by Executive Director Finance & Regulatory on the Council's Treasury Management activities undertaken during financial year 2019/20 for review and scrutiny prior to Council approval. (Copy attached.)	15 mins
9.	External Audit Annual Report 2019/20 for Scottish Borders Council Pension Fund (Pages 33 - 72) Consider the Annual Audit Report 2019/20 and ISA580 from the External Auditors on Scottish Borders Council Pension Fund reviewed by Pension Fund Joint Committee and Board prior to Council approval. (Copy attached)	10 mins
10.	External Audit Annual Report 2019/20 and the Audited Report and Accounts 2019/20 for Scottish Borders Council Pension Fund (Pages 73 - 162) Consider the audited annual report and accounts 2019/20 of the Pension Fund reviewed by Pension Fund Joint Committee and Board prior to Council approval. (Copy attached)	15 mins
11.	Internal Audit Work to August 2020 (Pages 163 - 174) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and other work in progress to deliver the approved Internal Audit Annual Plan 2020/21. (Copy attached)	15 mins
12.	Local Government in Scotland Overview 2020 (Pages 175 - 228) Consider the report by the Accounts Commission published in June 2020 which is the annual summary of the key challenges and performance issues faced by Councils. Whilst prepared before the Covid-19 pandemic hit, it contains messages which are designed to be useful in the recovery process. Issues relating to financial sustainability, the need to change how services are delivered, longer term budget management, and the need to make more progress with the integration of health and social care services. The supplement to the report includes a scrutiny toolkit for Councillors. (Copies attached)	15 mins
13.	Audit Scotland Counter Fraud Reports (Pages 229 - 232) Consider the national reports published by Audit Scotland in recent months (Fraud and Irregularity Update 2019/20 in June 2020; National Fraud Initiative 2018/2019 in July 2020; and Covid-19 Emerging Fraud Risks in July 2020) to share practice and learn lessons. (Copy attached)	15 mins
14.	Any Other Audit Items Previously Circulated.	
15.	Any Other Audit Items which the Chairman Decides are Urgent.	
	SCRUTINY BUSINESS	

16.	Council Funded Police Community Action Team (Pages 233 - 240) Consider report by Chief Social Work and Public Protection Officer. (Copy attached.)	15 mins
17.	Proposed Scrutiny Work Programme (Pages 241 - 244) (Copy attached.)	20 mins
18.	Any Other Scrutiny Items Previously Circulated.	
19.	Any Other Scrutiny Items which the Chairman Decides are Urgent.	

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, J. A. Fullarton, N. Richards, H. Scott, E. Thornton-Nicol, S. Scott, Mr M Middlemiss and Ms H Barnett

Please direct any enquiries to Fiona Henderson, Democratic Services Officer
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**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE**

MINUTE of Meeting of the AUDIT AND SCRUTINY COMMITTEE conducted remotely by Microsoft Teams Live Event on Tuesday, 23 June 2020 at 10.15 am

- Present:- Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J. Fullarton, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, S. Scott and E. Thornton-Nicol. Audit Business: Ms H. Barnett and Mr M Middlemiss (from para 6) and from Audit Scotland: Mr A. Haseeb, Mr G. Samson and Ms G. Woolman.
- In Attendance:- Executive Director Finance & Regulatory, Chief Officer Audit & Risk, Clerk to the Council, Democratic Services Officer (F. Walling).

CHAIRMAN

The Chairman opened the meeting and welcomed Members of the Audit and Scrutiny Committee and members of the public to the Scottish Borders Council's open on-line meeting. The meeting was being held remotely in order to adhere to guidance on public meetings and social distancing currently in place, due to the COVID-19 pandemic.

1. **MINUTE.**

- 1.1 There had been circulated copies of the Minute of the Meeting held on 9 March 2020.

DECISION

APPROVED for signature by the Chairman.

- 1.2 With regard to paragraph 2 of the Minute, the Chief Officer Audit and Risk apologised that, due to current circumstances, the Action Tracker and update on the Best Value Action Plan were not presented but were planned to be available at the next meeting. With regard to the Internal Audit Strategy and Annual Plan 2020/21, summarised in paragraph 7 of the Minute, the Chief Officer advised that, due to the effects of the current pandemic, the Plan had been re-assessed in terms of potential changes i.e. add audits to cover new risks, defer low risk cyclical audits to a future year, and re-schedule medium risk audits to later in the year. This had been carried out in consultation with the Corporate Management Team and any significant changes would be submitted to the Committee for approval. The Chairman recognised the changes in priorities brought about by recent developments and agreed there should be more time given to follow up on actions and it was particularly important that there was follow up on the Best Value Audit.

**DECISION
NOTED.**

AUDIT BUSINESS

2. **INTERNAL AUDIT WORK TO MARCH 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 from 1 to 31 March 2020 was detailed in the report. During the period, a total of 3 final Internal Audit reports had been issued. There was a total of 14 recommendations made associated with the 3 reports (10 Medium Risk; 4 Low Risk). 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, was detailed in Appendix 1 to the report. The Chief Officer gave thanks to the Internal Audit team for their efforts during the year to complete all planned assurance work, and to Management for their cooperation in finalising the three assurance reports during a very challenging time. The Chief Officer summarised the main points and recommendations within the 3 reports which related to: Contracting and Procurement; Business World ERP System Key Internal Controls; and SB Contracts. Members asked questions and received further clarification, in particular around Business World ERP System Key Internal Controls. They welcomed the good levels of assurances given. In response to a question as to whether there was capacity to monitor the audit actions post-COVID-19, the Chief Officer advised that she had agreed with Management a three-month extension to all audit actions, having taken into account risks from all open actions. Internal Auditors had a positive working relationship with Managers and, in recognising that the pandemic posed a significant risk to the whole organisation, would review recommendations with action owners.

DECISION

- (a) NOTED 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) AGREED to acknowledge 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. RISK MANAGEMENT ANNUAL REPORT 2019/20.

3.1 With reference to paragraph 6 of the Minute of 13 May 2019, there had been circulated copies of a report by the Chief Officer Audit and Risk providing an overview of Scottish Borders Council's responsibilities in respect of risk management and an update on the risk management activity during 2019/20. The report explained that 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. 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 were managed and controlled. This new approach had proven to be successful, with Members providing positive feedback following presentations by the Executive Director, Finance and Regulatory, in February 2020 and the Chief Social Work and Public Protection Officer in March 2020. It was further explained that, following the outbreak of the coronavirus COVID-19 at the end of 2019, 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 moved into the next stage of the pandemic, risks would continue to be identified and managed to ensure that Services continued to be delivered in the safest way possible for all stakeholders.

3.2 In response to a question about reference to the use of Pentana, the Council's performance management system, being encouraged or enforced, the Corporate Risk Officer explained that improved Pentana system functionality had provided the opportunity for Service Managers to monitor their Business Plan Actions, Performance Indicators, Risks and Audit Actions through dedicated portals. The use of Pentana system for all Services would therefore ensure Managers had an overview of all Performance Indicators, actions and risks in one place. Next steps for 2020/21 included the review of the Risk Management training course. Given the exceptional circumstances as a consequence of the Coronavirus pandemic, the training may be delivered through an

online platform to ensure that Managers had the skills to continue to identify, monitor and control risks in line with the Corporate Risk Management Policy and Framework.

DECISION

AGREED to acknowledge satisfaction 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.

4. COUNTER FRAUD ANNUAL REPORT 2019/20.

With reference to paragraph 7 of the Minute of 13 May 2019, there had been circulated copies of a report by the Chief Officer Audit and Risk providing 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. The report explained that this was the second annual report on progress in relation to the revised Counter Fraud Policy statement and 3-year Counter Fraud Strategy approved by Council in 2018. Scottish Borders Council continued to participate in the National Fraud Initiative (NFI) which was a UK wide counter fraud exercise led by the Cabinet Office and Audit Scotland. It used 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 outcomes of the Council's participation in the National Fraud Initiative (NFI) 2018/2019 were shown in a table within the report. In summary, total savings (overpayments and estimated savings) of £346,725 from fraud and error were identified in the NFI 2018/2019 exercise, as at 4 April 2020. In response to Members' questions, the Corporate Fraud and Compliance Officer gave further clarification about the information provided. He pointed out that the amount of Fraud and Error identified for Council Tax Discount was not an indication of increased levels of fraud. This was 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. He also explained the difference between estimated savings and total savings (which included savings resulting from an ongoing liability) and that the calculation of these was driven by rules provided by Audit Scotland. In response to a question about plans for Fraud Awareness Training across the workforce and with reference to the relatively low number of sessions held in 2019/20, the Corporate Fraud and Compliance Officer explained that two types of training were planned. It was proposed to provide a short e-learning module which would be mandatory to all staff. Enhanced training would be targeted to staff in specific areas of relevance, such as finance, to refresh the message, highlight different types of fraud and enable staff to have confidence to identify fraud where this is occurring.

DECISION

AGREED:

(a) to NOTE:

(i) the counter fraud work undertaken in support of the Council's counter fraud policy and strategy; and

(ii) the outcomes of the counter fraud activity 2019/20.

(b) to request that officers note the importance placed by the Committee on the availability of Fraud Awareness Training for all staff.

5. INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2019/20.

With reference to paragraph 8 of the Minute of 13 May 2019, there had been circulated copies of a report by the Chief Officer Audit & Risk presenting the Internal Audit Assurance Report for the year to 31 March 2020 which included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy of the Council's overall control environment. The report explained that the Public Sector Internal Audit Standards

(PSIAS) required that the Chief Audit Executive (CAE), the Council's Chief Officer Audit and Risk, provide 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 was in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance. The Internal Audit Annual Assurance Report for 2019/20, attached as Appendix 1 to the report, included the annual Internal Audit opinion, provided details of the Internal Audit activity and performance during the year to fulfil its role, and summarised the outcomes of assessments of the Internal Audit service against the PSIAS. The Chief Officer Audit & Risk's opinion was that, based on Internal Audit reviews and knowledge, the systems of internal control, governance and risk management within the Council were operating satisfactorily. The Chief Officer highlighted the main points of the three elements of the report and gave further clarification where requested by Members. In terms of the Internal Audit Annual Plan 2019/20 Delivery, she explained that the level of Actual Audit days was higher than in the plan. This can be attributed to the unplanned secondment of a 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. In response to a question about the ongoing Shared Internal Audit Services arrangement between Scottish Borders Council and Midlothian Council, the Chief Officer indicated that the benefits for both authorities appeared to be continuing. On the basis of these positive outcomes there was an opportunity for both authorities to explore other aspects in terms of shared services.

DECISION

- (a) **NOTED the Internal Audit Annual Assurance Report 2019/20 attached as Appendix 1 to the report.**
- (b) **AGREED that the Internal Audit Annual Assurance Report 2019/20 be published on the Council's website.**

MEMBER

The Chairman welcomed Mr Middlemiss to the meeting, who apologised for his unavoidable delay.

6. SCOTTISH BORDERS COUNCIL ANNUAL GOVERNANCE STATEMENT 2019/20.

6.1 With reference to paragraph 9 of the Minute of 13 May 2019, there had been circulated copies of a report by the Chief Executive presenting for approval the Annual Governance Statement that would be published in the Council's Statement of Accounts 2019/20. The Annual Governance Statement 2019/20 at Appendix 1, in compliance with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016), provided details of the Council's Governance Framework, the annual Review of Framework undertaken, Improvement Areas of Governance, and overall opinion. In terms of overall corporate governance it was the Chief Executive's opinion that, although there were a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council were considered sound. The Executive Director Finance and Regulatory presented the report and summarised the Council's governance arrangements as these related to the seven core principles of good governance set out in the CIPFA/SOLACE Framework. He also highlighted the main areas where improvement in governance arrangements could be made, in particular with respect to implementing the Best Value Action Plan approved by Council in December 2019. With reference to the statement on the Community Planning Partnership the Chairman commented that although assurance was given of a joined-up nature between the Locality Plans, Improvement Plan and Community Partnership Plan, this should be a priority for attention in the year ahead to strengthen the linkage between the plans and improve partnership outcomes.

6.2 The Executive Director emphasised that the assurance opinion reflected 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 meant that as a Category 1 responder the Council's primary responsibilities were working with other resilience partners to protect life, especially the vulnerable, and to support businesses and the wider public; as such local authority workers were part of the essential response during the COVID-19 outbreak. In response to a question about openness and transparency in relation to reports approved using Emergency Powers, on a temporary basis during the COVID-19 outbreak, the Clerk to the Council confirmed that these reports would be published on the Council's website.

DECISION

AGREED to:-

- (a) note the details of the Annual Governance Statement 2019/20 as detailed in Appendix 1 to the report and that it reflected the risk environment and governance in place to achieve objectives;**
- (b) acknowledge the actions identified by Management to improve internal controls and governance arrangements; and**
- (b) give approval for publication of the Annual Governance Statement in the Council's Statement of Accounts 2019/20.**

ADJOURNEMENT

The meeting was adjourned at 11:44 am and re-convened at 11:50 am.

MEMBER

Councillor H. Scott left the meeting during the presentation and discussion below.

7. UNAUDITED REPORTS AND ACCOUNTS 2019/20 FOR SCOTTISH BORDERS COUNCIL.

- 7.1 With reference to paragraph 3 of the Minute of 25 June 2019, there had been circulated copies of a report and associated papers, by the Executive Director Finance and Regulatory, providing an opportunity to scrutinise the draft Scottish Borders Council and Group Annual Report and Accounts for the year ended 31 March 2020 prior to its submission to the External Auditors. It was explained that the draft Report and Accounts were still subject to Statutory Audit, which would commence in July as normal, but was likely to conclude later than usual due to competing audit demands as a result of the COVID-19 pandemic. It was estimated that following the Audit process, the final report and Accounts would be submitted to Council in November 2020. The Accounts summarised the financial transactions for the 2019/20 financial year and the balance sheet positions as at 31 March 2020 as set out in the Local Authority Accounts (Scotland) Regulations 2014. The draft Annual Accounts for 2019/20 were attached as Appendices to the report as follows: Annual Accounts for Scottish Borders Council; SBC Common Good Funds; SBC Welfare Trust; SBC Education Trust; SBC Community Enhancement Trust; Ormiston Trust for Institute Fund; SBC Charity Funds; Bridge Homes LLP; and Lowood Tweedbank Ltd. The accounts would be submitted to the External Auditors, Audit Scotland or KPMG as appropriate for full audit by 30 June 2020 and be available for public inspection on the Council's website for a 14 day period commencing 1 July 2020.
- 7.2 The Executive Director highlighted the main points from the Scottish Borders Council 2019/20 accounts by means of a visual presentation. Before doing so, he paid tribute to his staff for their achievement in preparing the accounts within the original timescale, despite the very difficult circumstances. The presentation provided the following headline figures: the Revenue Outturn for 2019/20 showed £1.538m underspend (0.58% of final approved budget); £13.263m Financial Plan Savings had been achieved, 70% of those on

a permanent basis; £8.412m of Earmarked balances from 2019/20 were carried into 2020/21 including £1.16m of DSM carry forward; Net Assets excluding Pension Fund liabilities had increased by £9.6m on the Balance Sheet; and there had been Capital Expenditure of £44.3m with a timing movement of £8.4m into 2020/21. The presentation gave an analysis of revenue expenditure by service and a graph detailing efficiency savings achieved over the past 5 years, categorised into permanent and temporary savings brought forward. With regard to SB Contracts in 2019/20 turnover had increased by £9m, or 57.2%, to £25.6m, with 20% of the total being generated by external works. In terms of the Council's reserves, the Useable Reserve as at 31 March 2020 equated to £30.1m. The presentation went on to refer to the Group accounts that were included with the papers. It was noted that with regard to the Scottish Borders Health and Social Care Partnership, the Integration Joint Board accounts had not been finalised for 2019/20, due to NHS resources being directed towards response to the COVID-19 outbreak. The group position reflected 2018/19 figures and would be updated once the accounts were available.

- 7.3 The Executive Director answered Members' questions on the accounts and provided further clarification where requested. Issues covered included: the pension liability and how this was calculated for the purposes of the accounts; the statement of indebtedness in relation to the IJB; the strategy in relation to reducing future demand for services; and the assessment and mitigation of risk of the current reduction in activity for SB Contracts. With regard to the percentage of total savings achieved on a permanent basis, Mr Robertson advised that whilst he would prefer to see a higher percentage of savings achieved permanently in line with the agreed financial plan, he recognised that in reality this was becoming tougher to achieve year on year, particularly taking into account the challenges now posed by COVID-19. In terms of the cumulative risk going forward due to the pandemic, he drew attention to a paper being presented to full Council on the response to the COVID-19 outbreak and the unprecedented financial challenge facing the Council. In this regard and in response to another question, he confirmed that the Council had useable reserves of £30.1m of which £7.8m were unallocated. Other reserves earmarked for specific purposes could also be used to support the response if this was considered prudent. The use of reserves would have to be repaid in future years. In terms of bad debts and the estimated ultimate collection rate for Council of 98.8% within the budget, the Executive Director explained that this was being monitored closely and accepted that this may have to be amended in the 2021/22 budget, also taking into account effect on cash flow. He confirmed that the Council would adopt a sympathetic approach to the collection of outstanding Council Tax and other debts and agree payment plans where appropriate. With regard to the average rate of interest of 4.67% paid on external debt, he explained that this was the average pooled rate on the Council's Loans Fund and that historic loans were re-financed at lower rates as the opportunities arose. The Chairman thanked the Executive Director and his team for their work behind the preparation of the accounts.

**DECISION
AGREED:-**

- (a) **to note the Draft Annual Report and Accounts 2019/20 for Scottish Borders Council and associated Group Accounts; and**
- (b) **to support its submission for review by the External Auditors, Audit Scotland for Scottish Borders Council, Common Good and Trust Funds accounts, and to KPMG who continue to provide the external audit of the Council's subsidiary Bridge Homes.**
8. **UNAUDITED REPORT AND ACCOUNTS 2019/20 FOR SCOTTISH BORDERS COUNCIL PENSION FUND.**

With reference to paragraph 3.3 of the Minute of 25 June 2020, there had been circulated copies of a report by the Executive Director Finance and Regulatory, providing an

opportunity to scrutinise the Draft unaudited Annual Report and Accounts for the Pension Fund for 2019/20 tabled prior to their submission to the External Auditors. The draft unaudited Annual Report and Accounts, provided in Appendix 1 to the report, had been 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. Following the statutory Audit process, the final Report and Accounts would be submitted to the joint Committee and Board to review and recommend for approval. The Annual Report would also be made available for public inspection for a 3-week period commencing 30 June 2020. The Executive Director Finance and Regulatory presented the report and highlighted the main points. Due to COVID-19 and the subsequent market crash in March 2020, the Fund had 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 had been ongoing over the past 5 years had meant the full effect of the market crash had not been incurred by the Fund. The Fund had throughout 2019/20 continued with the processing of diversification away from equities and had increased its investments in infrastructure from £11.5m to £26.4m. The Pension Fund Committee and Board believed that a positive approach to Environmental, Social and Governance (ESG) issues could positively affect the performance of the Fund. Good progress had been made with the Fund's first annual responsible investment report being approved. This report showed that 99.8% of the Funds' assets were managed in compliance with United Nations Principles of Responsible Investment (UNPRI) signatories. The Fund continued to work with all its managers to ensure ESG was fully integrated into all their investment decisions. The Fund has also during the year become signatories to Climate Action 100+ initiative which was actively working to ensure the Paris Agreement climate change targets were met. In answer to a question with regard to the assessment and management of risk the Executive Director gave further clarification and confirmed that all identified actions were monitored quarterly with a full risk review undertaken annually.

DECISION

NOTED the Draft Unaudited Pension Fund Annual Report and Accounts for 2019/20

9. **AUDIT SCOTLAND: COVID-19 WHAT IT MEANS FOR PUBLIC AUDIT IN SCOTLAND.** There had been circulated copies of a briefing by Audit Scotland, published in May 2020. Mr Haseeb (Audit Scotland) presented the paper and explained that a further briefing was currently being prepared. Audit Scotland recognised that public bodies were under exceptional pressure as they managed the impact of the pandemic. Guidance and deadlines for financial reporting had been amended to reflect this. The Audit for Scottish Borders Council would commence in July as planned, but instead of sign-off being by the end of September this would be extended to the 30 November. It would be some time before the impact of COVID-19 on public services and finances would be fully understood. The approach to audit would be flexible, pragmatic and consistent. Audit Scotland's work would need 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. Within the financial audit, governance would be a key focus, including the new arrangements put in place by public bodies in response to COVID-19. Audit Scotland was committed to helping Parliament and the public understand how public money had been used during this crisis and ensure lessons were learned for the future. The complex and dynamic nature of the COVID-19 crisis meant that the work would need to be carried out in a phased approach. In the longer term, Audit Scotland would be working to identify lessons that could be learnt from the public sector's response; assessing the outcomes achieved from key Scottish Government spending and programmes related to COVID-19; and aligning work programme with the Scottish Government's work to rebuild Scotland's economy, remove inequality and advance wellbeing. The Chairman thanked the Audit Scotland representatives and the Committee's external members for their attendance.

DECISION

NOTED

SCRUTINY BUSINESS

10. PROPOSED SCRUTINY WORK PROGRAMME

There had been circulated copies of an extract from the Audit & Scrutiny Minute of 10 February 2020 regarding a report by the Service Director Customer and Communities, presenting an update on subjects for Scrutiny review as part of the future Scrutiny Work Programme. There were 14 subjects which were due to be taken forward and these were detailed in the Appendix to the extract. In light of the impact of COVID-19 the Chairman invited Members to reconsider the Scrutiny Work Programme being recommended for approval to Council and to re-look at the priority order of these subjects for review. In the ensuing discussion, Members agreed that it was appropriate to change the order on the list contained within the appendix and identified the priority subjects for review as: Child Poverty; Welfare Fund; Following the Public Pound – grant evaluations; Grass Cutting Regime & Biodiversity; Police Community Action Teams; and Recycling and Waste Policy. After hearing information from the Chief Officer Audit & Risk that both the Welfare Fund and Funding to Community Groups would be part of the 2020/21 Internal Audit Programme, Members agreed to leave all 14 subjects on the list but to ask the Clerk to the Council, in consultation with the Chief Officer Audit & Risk, to decide an appropriate order of consideration based on the priorities identified above. The Clerk added that Members could agree to include additional subjects on the list at a later date providing these were also agreed by Council.

DECISION

* **AGREED**

- (a) **to amend the recommendation to Council in Paragraph 10.2(a) of the Minute of Audit & Scrutiny Committee of 10 February 2020:**
- (b) **to recommend to COUNCIL:**
 - (i) **approval of the subjects to be included in the Scrutiny Work Programme, as detailed in the Appendix to this Minute; and**
 - (ii) **given the response/recovery work required for COVID-19, and its impact on officer resources/time, that the order of the Scrutiny Work Programme is prioritised by the Audit & Scrutiny Committee.**

The meeting concluded at 1.45 pm

SCOTTISH BORDERS COUNCIL
ACTION SHEET MASTER COPY
AUDIT & SCRUTINY COMMITTEE 2020/21

Notes:-

1. Paragraphs Marked with a * require full Council approval before action can be taken
2. Items for which no actions are required are not included

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
25 November 2019				
Treasury Management Mid-Year Report 2019/20	Noted that there would be a report to Council in January 2020 on the review of the Corporate Capital Strategy and its delivery process.	Finance	David Robertson	Agenda Item 'Monitoring of the Capital Financial Plan 2019/20' for Executive Committee 11 February 2020 included a report 'Review of Capital Slippage' setting out the proposed actions by CMT. Complete.
Progress with Implementation of Internal Audit Recommendations	Requested that the Corporate Management Team determine an escalation process to address those Internal Audit recommendations not completed within the agreed timescale.	CMT	David Robertson	Chief Officer A&R prepared a report to CMT 22 July 2020 on proposals for enhanced Follow-Up activity – Complete.
10 February 2020				
Local Government in Scotland - Financial Overview 2018/19	Agreed to recommend that the Chief Executive, in conjunction with the NHS Chief Executive and IJB Chief Officer, undertakes a review of the arrangements for the IJB carrying forward a surplus/deficit.	Chief Executive	Tracey Logan	The Scheme of Integration outlines how financial surpluses/deficits will be treated; any underspend will be carried forward in the Council's accounts. The IJB's Scheme of Integration requires to be reviewed every five years. Complete.
Scrutiny Work Programme	*Agreed to recommend to Council the subjects to be included in the Work Programme as detailed in the Appendix to the Minute.	Democratic Services	Jenny Wilkinson	Business covered at 23 June 2020 meeting - Complete
Scrutiny Work Programme	Agreed that the first update to A&S on progress with the implementation of the Best Value Action Plan be brought to meeting on Thursday 4 June.	Transformation & Performance	Jason McDonald	Superseded by discussion at 9 March 2020 - Complete

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
9 March 2020				
Action Tracker	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.	Transformation & Performance	Jason McDonald	Delayed to 28 September 2020 due to COVID-19 response.
23 June 2020				
Minute	With regard to the Internal Audit Strategy and Annual Plan 2020/21, summarised in paragraph 7 of the Minute, the Chief Officer advised that, due to the effects of the current pandemic, the Plan had been re-assessed in terms of potential changes i.e. add audits to cover new risks, defer low risk cyclical audits to a future year, and re-schedule medium risk audits to later in the year. This had been carried out in consultation with the Corporate Management Team and any significant changes would be submitted to the Committee for approval.	Audit & Risk	Jill Stacey	Scheduled for presentation in November 2020 within the Internal Audit Mid-Term Performance Report 2020/21 which includes an update on plan delivery.
Counter Fraud Annual Report 2019/20	Request that officers note the importance placed by the Committee on the availability of Fraud Awareness Training for all staff.	Audit & Risk	Jill Stacey	Planned for 2020/21 in collaboration with the Corporate Fraud Steering Group (Integrity Group).
Scottish Borders Council Annual Governance Statement 2019/20	In response to a question about openness and transparency in relation to reports approved by Emergency Powers, on a temporary basis during the COVID-19 outbreak, the Clerk to the Council confirmed that these reports would be published on the Council's website	Democratic Services	Jenny Wilkinson	Published as Agenda papers and Minutes as Covid-19 Chief Executive Emergency Powers Decisions on modern.gov on 20 July 2020 - Complete
Scrutiny Work Programme	*Agreed to recommend to Council (i) approval of the subjects to be included in the Scrutiny Work Programme, as detailed in the Appendix to this Minute; and (ii) given the response/recovery work required for COVID-19, and its impact on officer resources/time, that the order of the Scrutiny Work Programme is prioritised by the Audit & Scrutiny Committee.	Democratic Services Audit & Scrutiny Committee	Jenny Wilkinson Cllr Stuart Bell, Chair of A&SC	Presented to Council at 25 June 2020 meeting - Complete

ANNUAL TREASURY MANAGEMENT REPORT 2019/20

Report by Executive Director, Finance & Regulatory

AUDIT & SCRUTINY COMMITTEE

28 September 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the annual treasury management activities undertaken during the 2019/20 financial year.**
- 1.2 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) requires an annual report on treasury management to be submitted to Council following the end of each financial year. This report highlights the Council's treasury activity undertaken in the year ended 31 March 2020 and the performance of the Treasury function.
- 1.3 Appendix 1 is the annual report of treasury management activities for 2019/20 and contains an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. The performance comparisons reported are based on the revised indicators agreed as part of the mid-year report approved on 25 November 2019.
- 1.4 The Appendix shows the Council's borrowing requirement to fund the capital investment undertaken during 2019/20, how much the council actually borrowed against the sums budgeted and the level of external debt within approved limits.
- 1.5 During the year the Council has again, where possible, deferred borrowing using surplus cash rather than undertaking new borrowing. However, the Council did undertake long term borrowing of £7.5m during the year, due to the cashflow of the capital program.
- 1.6 Treasury management activity for the year has been undertaken in compliance with approved policy and the Code. The Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2020.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Members note that treasury management activity in the year to 31 March 2020 was carried out in compliance with the approved Treasury Management Strategy and Policy as detailed in this report and in Appendix 1**

3 BACKGROUND

- 3.1 The Council approved the Treasury Management Strategy (the Strategy) for 2019/20 at the Council meeting on 28 February 2019. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 3.2 The Council received a mid-year report on 25 November 2019 and approved the revised Prudential and Treasury Management Indicators for 2019/20 following the updating of assumptions, in particular capital expenditure estimates.
- 3.3 As set out in the Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Annual and Mid-Year Reports before submission to Council for final approval.

4 ANNUAL TREASURY MANAGEMENT REPORT TO 31 MARCH 2020

- 4.1 The Annual Treasury Management Report for 2019/20 is shown in Appendix 1.
- 4.2 Appendix 1 shows the Council's borrowing requirement to fund capital investment undertaken during 2019/20, how much the Council actually borrowed against the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits.
- 4.3 In addition, Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators. All of the 2019/20 target indicators reported are based on the revised indicators agreed as part of the mid-year report on 25 November 2019.
- 4.4 The key Prudential Indicators (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year to 31 March 2020, with comparators, are as follows:

	2019/20 Actual £m	2019/20 Estimate* £m	Variance £m
Actual Capital Expenditure (PI-1)	44.3	62.2	(17.9)
Total Capital Financing Requirement (CFR) (PI-2)**	312.9	321.0	(8.1)
(Under)/Over Gross Borrowing against the CFR (PI-6) ***	(127.8)	(104.6)	(23.2)

*Revised estimate, approved by Council 25 November 2019 as part of the mid-year report

** The CFR for this calculation is based on expenditure to 31 March 2020 only

*** The CFR for this calculation includes the current year and projected movement for the next two subsequent years.

(a) **PI-2 Total Capital Financing Requirement**

The year-end total CFR varied only marginally from that projected in the mid-year report.

(b) **PI-6 (Under)/Over Gross Borrowing against the CFR**

The reason for the increase in the level of under-borrowing, compared to that projected is due to the actual level of capital expenditure for 2019/20 being less than the projected value in the

mid-year report, and an increase to the anticipated levels of capital expenditure in the next two subsequent years.

(c) **Investments**

Investments held on 31 March 2020 amounted to £8.6m. This is an increase from the £2.7m at 31 March 2019 as a result of the delays in the capital program.

- 4.5 Treasury management activity for the year has been undertaken in compliance with the approved policy and the Code and the Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2020.

5 INVESTMENT STRATEGY

- 5.1 The Investment Objectives and Policy states that 'the Council will aim to achieve the optimum return on its investments corresponding with proper levels of security and liquidity'.
- 5.2 The current Sector Limit for Money Market Funds (AAA) is £25m, with an individual Counterparty Limit of £5m for AAA rated Money Market Funds.
- 5.3 Due to high levels of cash held at certain times of the year, the £25m limit on Money Market Funds are fully used and excess funds are placed with the DMO. The rates available from DMO are less than the Money Market Funds.

6 IMPLICATIONS

6.1 Financial

There are no further financial implications relating to this report. The outcomes from the Council's treasury management activities are explained in detail within Appendix 1.

6.2 Risk and Mitigations

This report is an account of the outcomes arising from the tightly controlled risk management work that the Council's Treasury staff have carried out. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

6.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine financial monitoring report which forms part of the governance of the Treasury function within the Council. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

6.4 Acting Sustainably

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

6.5 Carbon Management

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

6.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

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 Chief Legal Officer (including as Monitoring Officer), the Chief Officer Audit and Risk, Service Director HR, Communications and the Clerk to the Council have been consulted and their appropriate comments have been incorporated into this report.

Approved by

David Robertson
Executive Director, Finance & Regulatory

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager - Tel 01835 825249
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Background Papers:

Previous Minute Reference: Scottish Borders Council 28 February 2019 and 25 November 2019.

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

Contact us at Pension and Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825249 Fax 01835 825166. email: T&Cteam@scotborders.gov.uk

SCOTTISH BORDERS COUNCIL

**ANNUAL TREASURY MANAGEMENT REPORT
YEAR TO 31 MARCH 2020**

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1. EXECUTIVE SUMMARY

1.1 This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

This paper highlights activity in relation to the treasury management function during 2019/20, the Council's strategy with regard to interest rates and future expectations and how the capital expenditure incurred by the Council in 2019/20 was funded. The investment strategy for 2019/20 is summarised in Section 5 and Members are provided with details of how well the treasury function has performed in relation to a set of standard performance indicators.

1.2 During 2019/20, the Council complied with its legislative and regulatory requirements.

1.3 Key Prudential (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Table 1	2019/20 Actual £m	2019/20 Estimate* £m	Variance £m
Actual Capital Expenditure (PI-1)	44.3	62.2	(17.9)
Total Capital Financing Requirement (CFR) ** (PI-2)	312.9	321.0	(8.1)
(Under)/Over Gross Borrowing against the CFR (PI-6) ***	(127.8)	(104.6)	(23.2)

* Revised estimate, approved by Scottish Borders Council on 25 November 2019 as part of the Mid Year Treasury report 2019/20

** The CFR for this calculation includes current capital expenditure to 31 March 2020

*** The CFR for this calculation includes the current and two future years projected capital expenditure.

1.4 Additional borrowing for the purpose of funding capital expenditure was undertaken during 2019/20 amounting to £7.5m. The statutory borrowing limit (the authorised limit) was not breached.

1.5 The economic environment during the 2019/20 financial year continued to remain challenging, with low investment returns.

2. COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2019/20

2.1 CAPITAL EXPENDITURE (*Prudential Indicator 1*)

- a) The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need, or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- b) The final capital expenditure for 2019/20 was lower than projected as a result of delays in expenditure on a number of projects, including Hawick Flood Protection (£1.1m), Reston Station (£0.6m), IT Transformation (£0.4m), School Estate block (£1.6m), Town Centre Regeneration (£1.4m) and the Borders Innovation Park (£0.7m).

The specific drivers for each of the movements have been disclosed in the regular monitoring reports to the Executive throughout 2019/20 and in the out-turn report presented in June 2020.

2.2 FINANCING THE CAPITAL PROGRAMME

- a) Capital Expenditure may either be financed:
- (i) Immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which does not impact on the Council's borrowing need, or
 - (ii) If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- b) **Table 2** below summarises the main funding elements of the 2019/20 capital expenditure.

Table 2	2019/20 Actual £m	2019/20 Estimate £m	Variance £m
Capital Expenditure	44.3	62.2	(17.9)
Other Relevant Expenditure *	0.0	0.0	(0.0)
Total Expenditure	44.3	62.2	(17.9)
Financed by:			
Capital Grants & Other Contributions	30.8	39.6	8.8
SBC Revenue Funding	0.6	0.2	(0.4)
Capital Fund/Capital Receipts	2.6	3.0	0.4
Plant & Vehicle Fund	1.5	2.0	0.5
Total identified finance	35.5	44.8	9.3
Net Financing Need for the Year	8.8	17.4	(8.6)

The decrease in unfinanced capital expenditure compared with the estimate in the mid-year report resulted principally from timing movements as detailed in paragraph 2.1 b).

2.3 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT (*Prudential Indicators 2 and 5*)

- a) The Council's underlying need to borrow for capital expenditure is termed the **Capital Financing Requirement (CFR)** and is a key prudential indicator. The CFR results from the capital activity of the Council and the resources that have been used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see **Table 2** in section 2.2 (b)), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- b) Depending on the capital expenditure programme, the treasury function organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Public Works Loan Board or the money markets, or utilising cash resources within the Council.
- c) **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the scheduled debt amortisation (or loans fund repayment), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:
- the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the scheduled debt amortisation for loans repayment.

The Council's borrowing activity is constrained by prudential indicators, including those comparing gross borrowing, the CFR and the authorised limit.

- d) The extent to which the Council is under/over borrowed at 31 March 2020 is calculated by comparing actual external debt against the CFR and is shown in **Table 3** below. It includes "Other long term liabilities", such as PFI and leasing schemes on the balance sheet. These increase the Council's borrowing need, however, as no borrowing is actually required against these schemes, these amounts have been deducted in **Table 3**.

Table 3	31 March 2020 Actual £m	31 March 2020 Estimate £m	Variance £m
CFR (PI-2)*	312.9	321.0	(8.1)
Less: Other long term liabilities **	67.4	67.3	0.1
Underlying borrowing requirement	245.5	253.7	(8.2)
External Borrowing at 31/3/20	202.7	204.8	2.1
(Under)/Over borrowing	(42.8)	(48.9)	(6.1)

*The CFR for this calculation includes current capital expenditure to 31 March 2020

**PPP/PFI/Finance Lease balances

TREASURY MANAGEMENT ACTIVITY

3.1 GROSS BORROWING AND THE CFR (*Prudential Indicator 6*)

- a) In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the current year (2019/20) plus the estimates of any additional capital financing requirement for the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2019/20. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4	31 March 2020 Actual £m	31 March 2020 Estimate £m	Variance £m
Fixed rate funding			
PWLB	167.1	169.2	(2.1)
Market	-	-	-
Variable rate funding			
Market *	35.6	35.6	-
External Borrowing	202.7	204.8	(2.1)
Other long term liabilities **	67.4	67.3	0.1
Total Debt	270.1	272.1	(2.0)
CFR (inc. next 2 year estimates)	397.9	376.7	21.2
(Under)/Over Gross Borrowing against the CFR (PI-6)	(127.8)	(104.6)	23.2

* LOBO loans (where a rate change could be instigated by the lender at certain intervals)

** PPP/PFI/Finance Lease balances

- b) Council deposits were made on a short term basis throughout 2019/20.
- c) On 23 September 2019 the Council borrowed £7.5m over 15 years at a rate of 1.67%.

3.2 OPERATIONAL BOUNDARY AND AUTHORISED LIMIT (*Prudential Indicators 7 and 8*)

- a) The **Operational Boundary** and the **Authorised Limit** are indicators which are intended to act as limits to the overall level of borrowing activity. The Authorised Limit represents the maximum limit beyond which borrowing is prohibited. The Operational Boundary represents the level of external borrowing that the Council is expected to operate within. **Table 5** compares the External Debt position with these indicators and demonstrates that the Council has not breached either limit during 2019/20.

Table 5	31 March 2020 Actual £m	Authorised Limit (PI-8) £m	Variance £m	Operational Boundary (PI-7) £m	Variance £m
Total Gross Borrowing	270.1	410.2	(140.1)	341.8	(71.7)

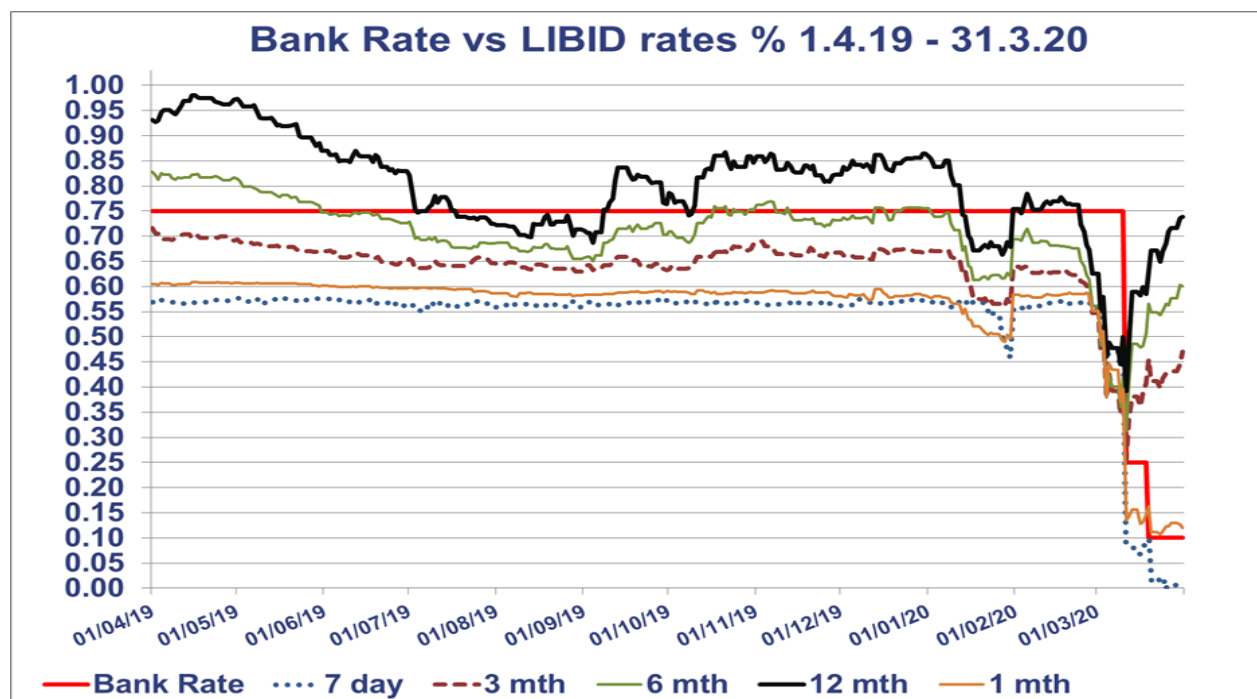
3.3 MATURITY PROFILE OF EXTERNAL DEBT

a) **Table 6** presents an analysis of the maturity structure of the Council's external debt portfolio.

Table 6	31 March 2020 £m
Under 12 months	0.8
12 months and within 5 years	13.0
5 years and within 10 years	25.5
Over 10 years	163.4
Total	202.7

4. INTEREST RATE MOVEMENTS AND EXPECTATIONS

4.1 INVESTMENT RATES IN 2019/20



- a) Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.
- b) Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value

was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

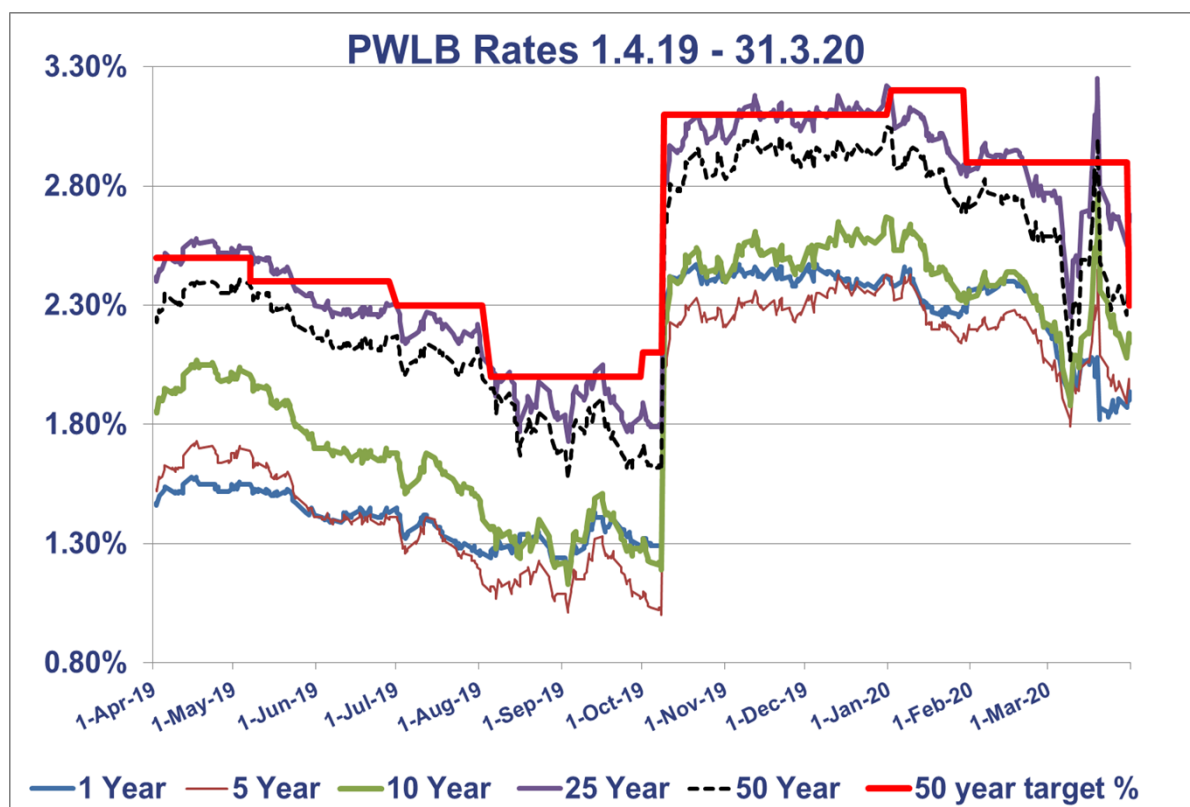
- c) While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- d) Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

4.2 BORROWING RATES IN 2019/20

- a) During 2019-20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
- b) A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- c) The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- d) Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Executive Director, Finance & Regulatory therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:
 - if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
 - if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

- e) Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View		31.3.20							
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50



- f) PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of

this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

- g) Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.
- h) However, HM Treasury has imposed **two changes in the margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.
- i) Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -
- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
 - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- j) There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

5. INVESTMENT STRATEGY FOR 2019/20

5.1 INVESTMENT OBJECTIVES

- a) The Council's investment strategy is governed by Scottish Government investment regulations and sets out the approach for choosing investment categories and counterparties, based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).
- b) The **primary objectives** of the Council's investment strategy are:
- (i) the safeguarding or **security** of the repayment of the principal and interest of investments on a timely basis;
 - (ii) ensuring adequate **liquidity** within the Council; and
 - (iii) maximising investment **yield** or return.

- c) The Council will ensure:
 - (i) It maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security, and the monitoring of their security; and
 - (ii) It has sufficient liquidity in its investments. For this purpose it sets out procedures for determining the maximum periods for which funds may prudently be committed. The Council's Prudential Indicators cover the maximum period over which sums can be invested.

5.2 INVESTMENT ACTIVITY

- a) The investment activity during the year conformed to the above approved strategy, and the Council had no liquidity difficulties. All money deposited with the Council's bank, Bank of Scotland, was done on an overnight basis to minimise security and liquidity risk to the Council.

5.3 CURRENT INVESTMENT POSITION

- a) The total value of investments/deposits for the Council at 31 March 2020 was £8.6m. Cash was held on a short term basis throughout 2019/20 with major banks and various money market funds (the latter having a credit rating of AAA).

6 TREASURY PERFORMANCE INDICATORS

The Treasury Management Function has established the following additional performance indicators.

6.1 DEBT PERFORMANCE INDICATORS

These indicators are additional to the prudential & treasury management indicators covered earlier in this report. The Indicators are:

- a) **Average 'Pool Rate'** charged by the Loans Fund compared to Scottish Local Authority average Pool Rate. Target is to be at or below the Scottish Average for 2019/20.

The Council's loans fund pool rate for 2019/20 was 4.01%. The Scottish Local Authority average "pool rate" for 2019/20 is not yet available at the time of writing, but was 3.99% in 2018/19 and is not expected to be materially different for 2019/20.

- b) **Average rate movement year on year.** Target is to maintain or reduce the average borrowing rate for the Council versus 2018/19. The Council's pool rate of 4.01% for 2019/20 was 0.06% lower than the reported Council's rate of 2018/19.

6.2 INVESTMENT PERFORMANCE INDICATORS

- a) **Security**
 - (i) The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is 0.02% historic risk of default.
 - (ii) During 2019/20, money was deposited in accounts on a short term basis, not exceeding 3 months.

b) Liquidity

- (i) Liquid short term deposits should be at least £500,000, available with a week's notice.
- (ii) This indicator was adhered to in 2019/20
- (iii) Weighted Average Life benchmark is **expected to be 0.5 years** (equivalent to a weighted average life of 6 months), with a **maximum of 1.00 years**.
- (iv) The weighted **average life for 2019/20 was 0.01 years**, well below the 0.5 year target.

c) Yield

The target yield is to have internal returns on cash investment above the 7 day LIBID rate. The return for 2019/20 averaged 0.65%, compared against an average 7 day LIBID rate for the year to 31 March 2020 of 0.54%.

2017/18 comparison figures for average internal returns and 7 day LIBID were 0.57% and 0.51% respectively.

Although yields remain low, the Council continues to make deposits on a short term basis with the Government's Debt Management Office (DMO) and Money Market Funds. The DMO is a very secure (Credit Rating of AAA) form of investment, but delivers a low rate of return (0.01%). The Money Market Funds used for deposits are also secure (with a Credit Rating of AAA). The planned deposit allocation between these two investment types has resulted in the returns mentioned above.

6.3 IMPACT ON REVENUE BUDGET

a) Ratio of actual financing costs to net revenue stream (*Prudential Indicator 3*)

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue funding for the Council. The comparison of the revised estimate approved in the 2019/20 mid year report to the outturn as at 31 March 2020 is as follows:

Table 8	Actual	Estimate
Ratio of financing costs to net revenue stream (<i>PI-3</i>)	%	%
	8.8	9.8

b) Net Cost of Servicing Debt (Loan Charges) – Table 9 below summarises the comparison of the outturn versus estimate for the revenue cost of servicing the debt for the Council, including interest relating to PPP schools unitary charges.

Table 9	2019/20 Outturn £m	2019/20 Mid-Year Estimate £m	Variance (Under) /Over £m
Interest on Borrowing	10.1	11.2	(1.1)
Investment Income	(0.3)	(0.3)	-
Capital Repayments	8.5	8.6	(0.1)
Total Loan Charges	18.3	19.5	1.2

- (i) The interest on borrowing costs represents the interest paid on external debt and to internally managed funds (e.g. Pension Fund, Common Good Funds).

6.4 TREASURY MANAGEMENT INDICATORS (*Treasury Indicators 1 – 5*)

- a) The Treasury Indicators (TIs) are shown in **Table 10** below. The Council remained well within these Indicator limits throughout 2019/20

Table 10	2019/20 Revised Indicator	2019/20 Actual as at 31 March 2020	
Upper limits – Debt with fixed and variable interest rates			
Upper limits on fixed interest rates (<i>TI-1</i>)	317.0	341.8	
Upper limits on variable interest rates (<i>TI-2</i>)	111.0	119.6	
Maturity Structure of borrowing			
	Upper (<i>TI-3</i>)	Lower (<i>TI-4</i>)	Actual
Under 12 months	20%	0%	0.38%
12 months to 2 years	20%	0%	5.07%
2 years to 5 years	20%	0%	1.35%
5 years to 10 years	20%	0%	12.58%
10 years and above	100%	20%	80.62%
Prudential limits for principal sums invested (<i>TI-5</i>)			
Cash Deposits < 12 months		100%	100%
Cash Deposits > 12 months		20%	0%

ANNEX A

Indicator Reference	Indicator	Page Ref.	2019/20 Original estimate	2019/20 Revised estimate	2019/20 Actual
PRUDENTIAL INDICATORS					
Capital Expenditure Indicator					
PI-1	Capital Expenditure (£m)	3	52.7	62.2	44.3
PI-2	Capital Financing Requirement (£m) (CFR)	5	332.4	321.0	312.9
Affordability Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	12	9.3%	9.8%	8.8%
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	N/A	£(0.01)	£(0.01)	£(0.04)
External Debt Indicators					
PI-5	Actual Debt (£m)	6	282.7	272.1	270.1
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	6	324.2	317.0	341.8
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	6	256.9	249.7	274.4
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	6	389.0	380.4	410.2
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	6	321.7	313.1	342.8
Indicators of Prudence					
PI-6	(Under)/Over Gross Borrowing against the CFR (£m)	6	(101.1)	(104.6)	(127.8)
TREASURY INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)	13	324.2	317.0	341.8
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)	13	113.5	111.0	119.6
TI-3 & TI-4	Maturity Structure of Fixed Interest Rate Borrowing	13	Upper	Lower	
	Under 12 months		20%	0%	
	12 months to 2 years		20%	0%	
	2 years to 5 years		20%	0%	
	5 years to 10 years		20%	0%	
	10 years and above		100%	20%	
TI-5	Maximum Principal Sum invested greater than 364 days	13	20%	20%	20%

Pension Fund Committee

24 September 2020

Dear Pension Fund Committee Members

Scottish Borders Council Pension Fund Audit of 2019/20 annual accounts

Independent auditor's report

1. Our audit work on the 2019/20 annual accounts is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 5 November 2020.
2. We have included an 'Emphasis of Matter' paragraph in the audit report. This draws attention to the reference in Note 5 'Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty' in the notes to the financial statements which describes the effects of uncertainties caused by Covid-19 on property investment portfolio valuations. The audit opinion is not modified in respect of this matter.
3. The proposed report is attached at **Appendix A**.

Annual audit report

4. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pension Fund Committee's consideration our draft annual report on the 2019/20 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
5. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
6. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

7. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

8. We identified one unadjusted error during the audit relating to late valuations for level 3 investment assets. If corrected, this would have decreased investment asset values by £0.94 million.

Fraud, subsequent events and compliance with laws and regulations

9. In presenting this report to the Pension Fund Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Executive Director Finance and Regulatory

10. As part of the completion of our audit, we are seeking written representations from the Executive Director Finance and Regulatory on aspects of the annual accounts, including the judgements and estimates made.
11. A letter of representation template is attached at [Appendix B](#). This should be signed and returned to us by the Executive Director Finance and Regulatory with the signed annual accounts prior to the independent auditor's report being certified.

Yours faithfully,

Gillian Woolman MA FCA CPFA

APPENDIX A: Proposed Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

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

In my opinion the accompanying financial statements:

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

Basis for opinion

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

Emphasis of matter – Property Investment Portfolio Valuations

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

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual report

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

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

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has

been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

APPENDIX B: Letter of Representation (ISA 580)

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

Dear Gillian

Scottish Borders Council Pension Fund Annual Accounts 2019/20

1. This representation letter is provided about your audit of the annual accounts of Scottish Borders Council Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Scottish Borders Council Pension Fund's annual accounts for the year ended 31 March 2020.

General

3. Scottish Borders Council Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2019/20 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Scottish Borders Council Pension Fund have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (2019/20 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Scottish Borders Council Pension Fund at 31 March 2020 and the transactions for 2019/20.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2019/20 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Scottish Borders Council Pension Fund circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Scottish Borders Council Pension Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Scottish Borders Council Pension Fund's ability to continue as a going concern.

Assets

10. For the year ended 31 March 2020, the amounts included in the Net Assets Statement reflects investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the funds. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2020. In making these assertions I am reliant on the opinions of the appointed fund managers. I am satisfied that the carrying amount of assets included in the financial statements at 31 March 2020 continues to represent the best available information while recognising the additional uncertainty created by the impact of the Covid-19 pandemic. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Banking and Cash Flow Arrangements

11. Scottish Borders Council Pension Fund maintains separate bank accounts and while these accounts form part of Scottish Borders Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

12. On realisation in the ordinary course of the Funds' business, the other current assets in the Net Assets Statement are expected, in my opinion, to produce at least the amounts at which they are stated. In particular, adequate provision has been made against all amounts owing which are known or may be expected to be irrecoverable.

Liabilities

13. All liabilities at 31 March 2020 of which I am aware have been recognised in the annual accounts.
14. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Management commentary

15. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

16. I acknowledge, as officer with the responsibility for the proper administration of the funds' financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the corporate governance arrangements and internal controls. The fund has undertaken a review of the system of internal control during 2019/20 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
17. I confirm that the Annual Governance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers and in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. Also, I have reviewed the Governance Compliance Statement and the disclosures I have made comply with the guidance from the Scottish Ministers. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2020, which require to be reflected.

Related Party Transactions

18. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2019/20 accounting code. I have made available to you the identity of all the fund's related parties and all the related party relationships and transactions of which I am aware.

Fraud

19. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.
20. There have been no irregularities involving management or employees who have a significant role in internal controls that could have a material effect on the financial statements.

Laws and Regulations

21. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Events Subsequent to the Date of the Net Assets Statements

22. There have been no material events since the date of the Net Assets Statements which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
23. Since the date of the Net Assets Statements no events or transactions have occurred, which though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Yours sincerely

Executive Director Finance and Regulatory

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Scottish Borders Council Pension Fund

2019/20 Annual Audit Report



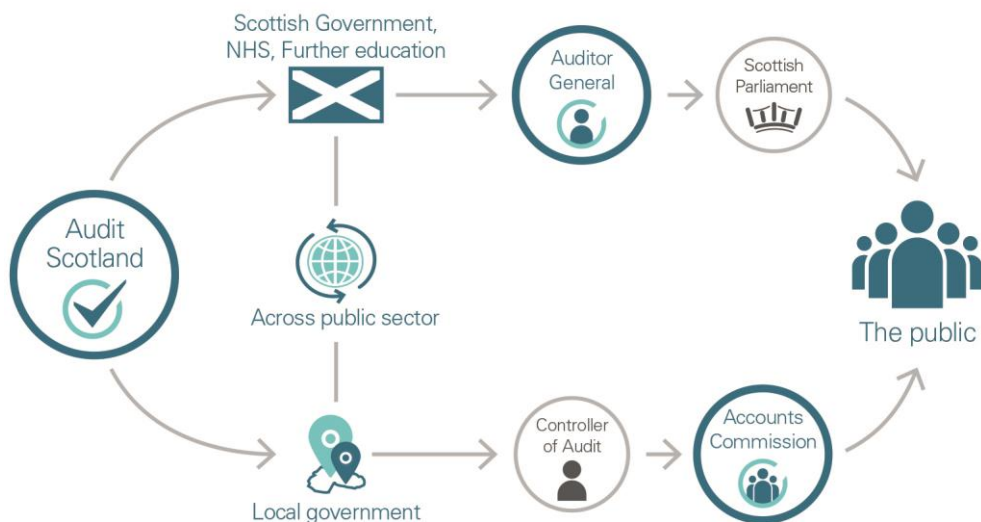
 AUDIT SCOTLAND

Prepared for Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund and the
Controller of Audit
September 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2019/20 annual accounts

- 1 Scottish Borders Council Pension Fund's (the Fund) financial statements give a true and fair view and were properly prepared.
- 2 An 'Emphasis of Matter' paragraph is included in the independent auditor's report to draw attention to the impact of Covid-19 on property investment valuations. The audit opinion is not modified in respect of this.

Financial management

- 3 There are effective arrangements in place for financial management.
- 4 The Fund had a negative performance of 1.7% during 2019/20, against a benchmark of negative 1.9%. On a rolling three year basis, performance is 3.8% which is above the benchmark of 3%. The Fund is continuing to make progress with its asset strategy, reducing exposure to equity investment from 48% to 44% of the total fund.

Financial sustainability

- 5 There are appropriate and effective financial planning arrangements in place.
- 6 The 2017 triennial valuation showed a funding level of 114%, the highest in Scotland, and an increase from 101% in 2014. This allowed the main pool of employing bodies to maintain their employer contribution rate at 18%. Work on the next triennial valuation as at 31 March 2020 is currently underway with an anticipated completion date of March 2021.

Governance and transparency

- 7 There are effective governance arrangements in place.
- 8 Papers and minutes of meetings are available on the Council's website. There is also a dedicated website for the Fund, making available a wide range of important information relevant to members
- 9 On 26 March 2020 Scottish Borders Council held a virtual meeting to agree temporary decision-making arrangements to minimise social contact. All routine Council and Committee meetings were cancelled and additional powers were delegated to the Chief Executive. From May 2020, Council Committee meetings restarted and meetings were held on a virtual basis. The Pension Fund Committee and Pension Board held their first virtual meeting on the 22nd June 2020. We consider these changes to be appropriate.
- 10 The Fund demonstrates commitment to Environmental, Social and Corporate Governance (ESG) issues through the approval of the Statement of Responsible Investment Policy, by actively engaging with investment managers to ensure they are incorporating ESG considerations into their investment decisions and by becoming a signatory to Climate Action 100+.

Value for money

- 11** There are good arrangements in place for monitoring investment performance and scrutinising investment management expenses.
- 12** Investment performance is subject to regular review and scrutiny by the Fund's Investment Sub-Committee.

Introduction

1. This report is a summary of our findings arising from the 2019/20 audit of Scottish Borders Council Pension Fund (the Fund).

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2020 meeting of the Audit and Scrutiny Committee. This report comprises:

- an audit of the Fund's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2019/20 have been:

- an audit of the Fund's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of the Fund's main financial systems
- consideration of the four audit dimensions.

Added Value

4. We add value to the Fund through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations

- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. Taking this together, we aim to help the Fund promote improved standards of governance, better management and decision making, and more effective use of resources.

Responsibilities and reporting

6. Scottish Borders Council (the 'Council') is the administering authority for the Scottish Borders Council Pension Fund. The Council delegates this responsibility to the Pension Fund Committee (the 'committee'). The Pension Fund Board (the 'Board') is responsible for establishing arrangements to ensure the proper conduct of the affairs of the Fund in accordance with the law and the requirements of the Pensions Regulator.

7. The Committee and Board are responsible for establishing effective governance arrangements and ensuring that financial management is effective. In the case of Scottish Borders Council Pension Fund, the arrangement is for the Council's Audit and Scrutiny Committee to review the effectiveness of internal control arrangements and to recommend the annual report and accounts for approval by the Council.

8. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements,
- suitability and effectiveness of corporate governance arrangements, and financial position and,
- arrangements for securing financial sustainability.

10. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

13. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

14. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £21,040 as set out in our Annual Audit Plan remains unchanged.

15. This report is addressed to both the members of the Scottish Borders Council as administering authority for the Scottish Borders Council Pension Fund and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

16. We would like to thank management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual accounts



Main judgements

Scottish Borders Council Pension Fund's (the Fund) financial statements give a true and fair view and were properly prepared.

An 'Emphasis of Matter' paragraph is included in the independent auditor's report to draw attention to the impact of Covid-19 on property investment valuations. The audit opinion is not modified in respect of this.

The annual accounts are the principal means of accounting for the stewardship of resources and performance

Our audit opinion on the annual accounts is unmodified

17. The annual accounts for the year ended 31 March 2020 were approved by Scottish Borders Council on 5 November 2020. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

18. All working papers were provided electronically and the audit team were able to complete the audit remotely. The working papers provided with the unaudited financial statements from the finance team were of a good standard and finance staff provided support to the audit team which helped ensure the audit process ran smoothly.

19. The working papers provided by the Human Resources Shared Services (HRSS) team were of an adequate standard and HRSS staff provided reasonable support to the audit team, however we did experience some instances where there was a slow turnaround in receiving documents from this team.

Objections

20. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for Scottish Borders Council Pension Fund was published on the website of the administering authority (Scottish Borders Council) and complies with the regulations. No objections were received to the Scottish Borders Council Pension Fund accounts.

Submission of annual accounts for audit

The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 sufficient to allow each

local authority to determine its own revised timetable for the Annual Accounts. The unaudited Annual Report and Accounts were received in line with our agreed audit timetable on 29 June 2020.

Consideration of materiality

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

22. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

23. In addition to planning materiality we set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the accounts.

24. We recognise that transactions with members and payments to pensioners are areas of importance to the users of the accounts and we set specific materiality levels as shown in [Exhibit 2](#).

25. On receipt of the unaudited annual report and accounts we reviewed our materiality and revised the figures as set out in Exhibit 2 below. The method used to calculate materiality is consistent with the planned approach.

Exhibit 2 Materiality values

Materiality level	Planning Amounts (based on 2018/19 accounts)	Revised Amounts (based on 2019/20 accounts)
Overall materiality	£7.33 million	£7.13 million
Performance materiality	£4.40 million	£4.28 million
Reporting threshold	£220,000	£214,000
Specific materiality for certain classes of transactions	£2.28 million	£2.36 million
Specific performance materiality for certain classes of transactions	£1.37 million	£1.42 million

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

26. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance in relation to these risks.

Significant findings from the audit in accordance with ISA 260

27. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant findings from our audit are summarised in [Exhibit 3](#)

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Material uncertainty in the valuation of property investments</p> <p>Property investments for Blackrock and UBS portfolio valuations both include a "material valuation uncertainty clause". The investment valuations affected amount to £98m, which is 13.7% of total investment asset value. Covid-19 meant the property sector were faced with an unprecedented set of circumstances on which to base a judgement.</p> <p>As at the valuation date, fund managers considered that less weight could be given to previous market evidence for comparison purposes to inform opinions of value. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.</p>	<p>Scottish Borders Council Pension Fund updated their accounting policies in the Annual Report and Accounts to disclose this material valuation uncertainty.</p> <p>We have included an 'Emphasis of Matter' paragraph in our independent auditor's report to highlight this matter. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. The audit opinion is not modified in respect of this matter.</p> <p>No further action required.</p>

Identified misstatements of £0.94 million were not adjusted in the accounts. These were less than our performance materiality

28. We identified misstatements totalling £0.94 million, which would have decreased investment asset values by £0.94 million. These consist of late valuations received for Level 3 assets. The valuations for these assets are included in the accounts with a lagged valuation date of 31 December 2019. The valuations were not available when the unaudited accounts were issued. The final valuations were received during our audit. After discussions with management, we concluded that adjustments for these final valuations were not required as the total adjustment required of £0.94 million is below our performance materiality level. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety, and do not indicate any systemic error.

Follow up of prior year recommendations

29. Management has made adequate progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

There are effective arrangements in place for financial management.

The Fund had a negative performance of 1.7% during 2019/20, against a benchmark of negative 1.9%. On a rolling three year basis, performance is 3.8% which is above the benchmark of 3%. The Fund is continuing to make progress with its asset strategy, reducing exposure to equity investment from 48% to 44% of the total fund.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial Performance in 2019/20

30. Pension fund finances are independently assessed every three years by an actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming three-year period and takes account of the strength of employer covenants and the Fund's investment strategy.

31. The Fund's performance in 2019/20 is summarised in [Exhibit 4](#)

Exhibit 4

Assets, funding level and investment performance

Decrease in net assets



£713 million

Closing net assets as at
31 March 2020

(-2.72%)

£733 million

Opening assets at 1 April 2019

Funding level



114%

2017 Funding Valuation

101%

2014 Funding Valuation

Investment performance



6.3%

Average annual return on
investments over 5 years

-1.7%

Return on investments 2019/20

Source: 2019/20 Scottish Borders Council Pension Fund unaudited annual report and financial statements

32. The promised retirement benefits at 31 March 2020 have been projected by the actuary using a roll forward approximation from the latest formal funding valuation as at 31 March 2017. These have been estimated at £887 million (2018/19 – £941 million), showing a 5.7% decrease. This estimate uses assumptions in line with Internal Accounting Standards (IAS) 19 requirements, for the purposes of the Fund's financial statements. It is not directly comparable to the liability measures on a funding basis.

33. The information contained in [Exhibit 3](#) demonstrates that the Fund has performed relatively well in 2019/20. The Fund has seen a negative performance of 1.7%, against a benchmark of negative 1.9%. The rebalancing of the asset portfolio has meant that the Fund has not been subjected to the full effect of market volatility due to Covid-19.

34. Although the Fund continues to perform well, management are aware that a number of challenges face the Fund and the wider environment in which it operates. A number of issues may increase pressure on the future funding position, including economic growth and the impact of EU withdrawal. Pension specific issues such as the scheme cost cap mechanism, guaranteed minimum pension (GMP) equalisation and the McCloud ruling on age discrimination within pension schemes, are also likely to impact on the funding position in the coming years.

35. The Fund has considered these challenges and continues to monitor risks through the corporate risk register. The funding strategy statement and investment strategy are reviewed and revised following actuarial valuations to ensure that the Fund is well placed to continue to meet its liabilities.

36. The 2019/20 – 2021/22 business plan identifies a number of key priorities for the years ahead.

Financial management arrangements

37. The Executive Director Finance and Regulatory for Scottish Borders Council is the Proper Officer responsible for Scottish Borders Council Pension Fund. The financial regulations of Scottish Borders Council, as administering authority, apply to the Fund. We consider these to be comprehensive, current, and promote good financial management.

38. Investment performance reports are submitted to the Pension Fund Committee on a quarterly basis, with administration performance reports submitted annually. Reports are comprehensive and well presented with enough narrative to describe issues to Councillors and other committee members. Through our attendance at the Pensions Committee we have observed adequate level of review and scrutiny by members. The Council has delivered training to members of the committee during the year including training on Financial markets and Investment Products, Investment Concepts and Terminology, the role of the Fund Custodian, LGPS Benefits Structure and Regulatory Environment. It is important that Committee members undertake all given training to ensure knowledge and skills are kept current.

39. Overall, the Fund has appropriate and effective financial management arrangements in place. This includes comprehensive reporting of investment performance.

Systems of internal control

40. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Scottish Borders Council Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. The Pension Fund uses the administering authority's key financial systems, in particular the general ledger, payroll and accounts payable systems. We have included that overall

systems of internal control are operating effectively we did identify issues relating to the validation of pensioners. These are detailed in [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation.

Standards of conduct and arrangements for prevention and detection of fraud and error

41. Scottish Borders Council Pension Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct.

42. We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the Scottish Borders Council's arrangements for the prevention and detection of fraud and corruption. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers

43. We have concluded that appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgement

There are appropriate and effective financial planning arrangements in place.

The 2017 triennial valuation showed a funding level of 114%, the highest in Scotland, and an increase from 101% in 2014. This allowed the main pool of employing bodies to maintain their employer contribution rate at 18%. Work on the next triennial valuation as at 31 March 2020 is currently underway with an anticipated completion date of March 2021.

Financial sustainability looks forward to the medium and longer term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

Financial planning arrangements

44. The March 2017 triennial valuation for the Fund (issued in December 2017) reported that fund assets were sufficient to meet 114% of its liabilities. The primary employer contribution rate was increased to 20.6%, however, on the actuary's advice, the Fund has utilised the over-funding to set the secondary rate at a level to maintain employer contributions at 18%.

45. The March 2020 triennial valuation for the Fund is currently underway with a completion date anticipated of March 2021. This will be the first triennial valuation completed by the newly appointed actuary of the Fund, Hymans Robertson, who replaced Barnett Waddingham as the Fund's actuary in 2019.

46. Following each triennial valuation, the Fund reviews and revises the funding strategy statement. The next full review is due to be completed by 31 March 2021.

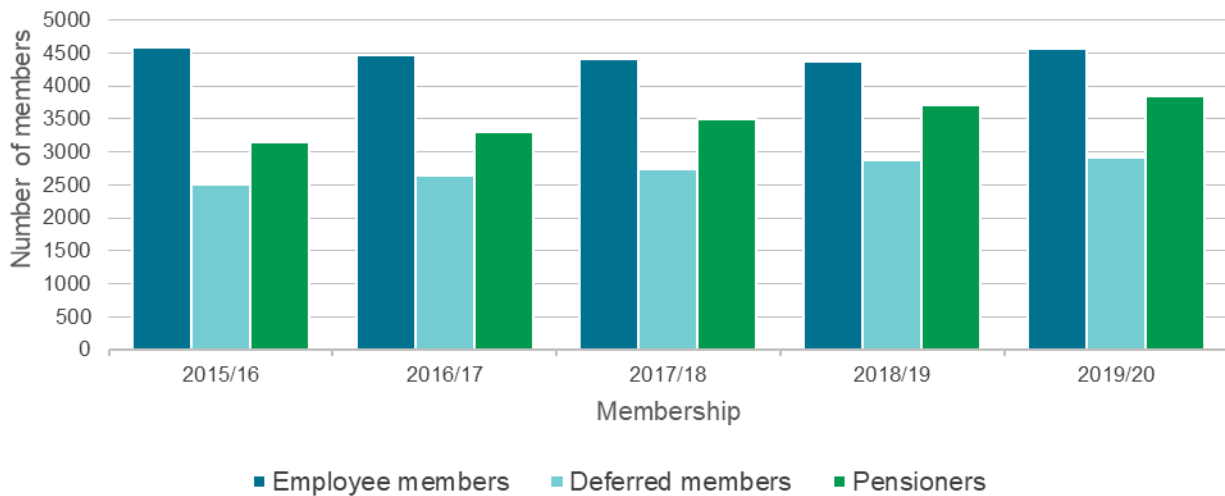
47. The funding strategy statement is a summary of the Fund's approach to funding liabilities. The investment strategy is set for the long-term but is monitored continually and reviewed every 3 years using asset-liability modelling to ensure that it remains appropriate to the profile of the Fund's liabilities. The investment strategy is outlined in the Fund's statement of investment principles.

48. We concluded that the Fund has an appropriate framework in place through which it demonstrates effective financial planning.

Membership levels

49. The Fund is a multi-employer fund with one Local Authority, and 16 other employers. The current membership profile is shown at [Exhibit 5](#). The number of active members continues to outweigh the number of pensioners.

Exhibit 5 Scottish Borders Council Pension Fund membership



Source: Scottish Borders Council Pension Fund 2019/20 unaudited financial statements

50. Membership increased from 10,961 to 11,338 members at 31 March 2020; a total increase in membership of 3.4%. After decreasing in recent years, employee members grew over the last year by 4.5%. These contributing employee members assist with the cash flow of the fund. Deferred non-contributing members increased by 1% and pensioners increased by 4%.

51. The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each member's life. It is important that the Fund maintains the capacity to meet the current and future pension entitlements of its members.

52. In 2019/20 the number of pensioners receiving a pension increased from 3,707 to 3,856, an increase of 4.0%. The number of pensioner members continues to increase steadily each year, as can be seen from the exhibit above, and is a key contributor to the ongoing deficit.

53. Future membership numbers are difficult to predict with any certainty as they are dependent on a number of factors including employer budgets, recruitment decisions, and promotion of the pension scheme.

54. With most employers still open to new membership and with continuing support from auto enrolment, the recent trend of growth in membership seems likely to continue for the foreseeable future.

Contributions

55. Following the latest triennial valuation in 2017, the Actuary agreed employer contribution rates with individual employers for 2018/19 onwards. For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates. The approximate split of all contributions received in year is set out at [Exhibit 6](#).

Exhibit 6

Contributions in 2019/20

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Total £m
Total Contributions	15.5	0.9	3.4	19.8

Source: Scottish Borders Council Pension Fund 2019/20 unaudited financial statements

56. The Fund reported a deficit of £5.3m in 2019/20. This means that pension payments out exceeded member contributions in, and investment income was used to ensure pensions were paid.

57. The continued growth in pensioner numbers makes funding pension payments increasingly challenging. The Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets.

58. As mentioned earlier in the report, the 2020 triennial valuation is currently underway with results anticipated in March 2021. The outcome of this valuation may lead to future revisions to the investment strategy and asset allocation based on the advice of the newly appointed actuary, Hymans Robertson. The outcome of this valuation and revisions to investment strategy may also result in changes to contribution rates going forward.

Part 4

Governance and transparency



Main judgements

There are effective governance arrangements in place.

Papers and minutes of meetings are available on the Council's website. There is also a dedicated website for the Fund, making available a wide range of important information relevant to members.

On 26 March 2020 Scottish Borders Council held a virtual meeting to agree temporary decision-making arrangements to minimise social contact. All routine Council and Committee meetings were cancelled and additional powers were delegated to the Chief Executive. From May 2020, Council Committee meetings restarted and meetings were held on a virtual basis. The Pension Fund Committee and Pension Board held their first virtual meeting on the 22nd June 2020. We consider these changes to be appropriate.

The Fund demonstrates commitment to Environmental, Social and Corporate Governance (ESG) issues through the approval of the Statement of Responsible Investment Policy, by actively engaging with investment managers to ensure they are incorporating ESG considerations into their investment decisions and by becoming a signatory to Climate Action 100+.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Governance arrangements

59. Scottish Borders Council is the administering body for Scottish Borders Council Pension Fund. The Council has delegated responsibility for governance to the Pension Fund Committee. This committee, supported by the Board (made up of four scheme employer representatives and four trade union representatives), is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

60. There has been a change to the Scheme of Administration with regards to the delegation of decision making for the annual report and accounts sign off. From 2019/20 the Pension Fund Committee will review the annual report and accounts and recommend the accounts approval to the Council. The annual report and accounts will also be submitted to the Audit and Scrutiny Committee for noting. We consider this to demonstrate good governance arrangements. Pension Fund committee members receive pension fund specific training, which equips them to effectively scrutinise the annual report and accounts.

The Covid-19 pandemic has affected governance and working arrangements

61. The impact of Covid-19 has been set out in the Annual Governance Statement in the annual report and accounts. We note that the following changes were made in response to the outbreak.

62. On 26 March 2020 Scottish Borders Council held a virtual meeting to agree temporary decision making arrangements to minimise social contact during the pandemic. It was agreed all formal Council and Committee meetings be cancelled unless required for statutory reasons and additional powers delegated to the Chief Executive in consultation with Officers and Members. From May 2020, Council Committee meetings restarted and meetings were held on a virtual basis. The Pension Fund Committee and Pension Board held their first virtual meeting on the 22nd June 2020.

63. Business continuity plans were implemented with staff mainly working at home with full access to systems and files. During the pandemic services have been maintained and payments made in a timely manner.

64. The arrangements detailed above are appropriate and adequate and support good governance and accountability.

Openness and transparency

65. Openness and transparency means that the public, in particular, members of the pension fund have access to understandable, relevant and timely information about how the Fund is taking decisions and how it is using resources.

66. The Pension Fund Committee and Board meetings are held in public with commercially sensitive information dealt with in private sessions. Minutes of the public meetings are available on the Scottish Borders Council website.

67. Overall, we conclude that the Fund conducts its business in an open and transparent manner.

Appropriate arrangements are in place to comply with the Pensions Regulator Public Service Code

68. There were no breaches of the Code that required to be reported to the Pensions Regulator in 2019/20.

The Fund is actively considering the future structure of Local Government Pension Scheme in Scotland

69. The Scottish Scheme Advisory Board is undertaking a review of the future structure of the Local Government Pension Scheme in Scotland. Four options have been identified by the board:

- Retain the current structure of eleven funds
- Promote cooperation in investment and administration between the eleven funds
- Pool investments between the funds
- Merge the funds into one or more funds.

70. Stakeholder views were sought through a consultation process and the Fund submitted a response in December 2018. Following the consultation process, a draft report incorporating stakeholder views was considered at the Scottish Scheme Advisory Board meeting on 24 April 2019. The outcome of this meeting is still awaited.

The Fund is actively considering Environmental, Social and Corporate Governance factors

71. The Fund believes that a positive approach to Environmental, Social and Corporate Governance issues can have a positive impact on the financial performance of investments.

72. The Fund approved a Statement of Responsible Investment Policy on the 30 November 2018 which details the Fund's approach to responsible investment and arrangements to monitor manager performance against the principles in this policy. The overwhelming majority of fund managers engaged with Scottish Borders Council Pension Fund (99.8%) are signatories to the United Nations Principles for Responsible Investment. The Fund became a signatory to Climate Action 100+ in March 2020. As a signatory the Fund supports Climate Action 100+ in its engagement with the boards and senior management of companies around the world to implement a strong governance framework, take actions to reduce greenhouse gas emissions and provide enhanced corporate disclosures.

Part 5

Value for money



Main judgements

There are good arrangements in place for monitoring investment performance and scrutinising investment management expenses.

Investment performance is subject to regular review and scrutiny by the Fund's Investment Sub-Committee.

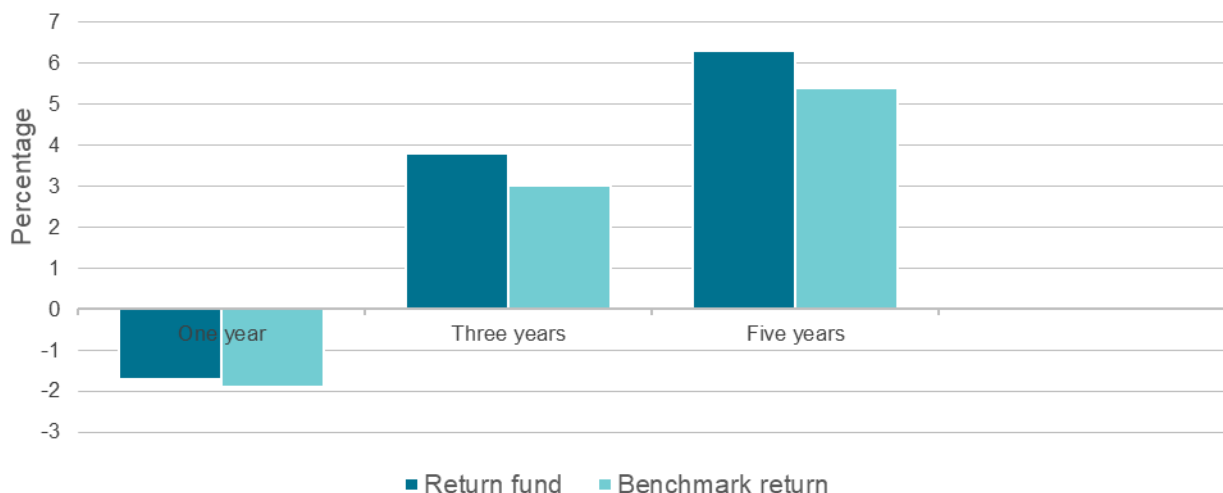
Value for money is concerned with using resources effectively and continually improving services.

Investment performance

73. The Pension Fund Investment and Performance Sub-Committee meets twice a year. A review of fund managers' performance is a standing item on the agenda. At each meeting, members receive a report outlining overall fund performance including an analysis of risks and returns.

74. [Exhibit 7](#) shows the Fund's performance against benchmark over one, three and five years.

Exhibit 7 Fund investment performance



Source: Scottish Borders Council Pension Fund 2019/20 unaudited financial statements

75. Over the medium to longer term the Fund has outperformed its benchmark over three and five years. Benchmarks are set by the Pension Fund in consultation with their investment consultant, Isio.

76. The Fund appoints several external fund managers. Individual investment manager performance is reported on a quarterly basis to the Pension Fund

Committee by the investment consultant, Isio. In addition, all investment managers are subject to review at least annually by the Investment and Performance Sub-Committee, and again by management to discuss operational issues. Fund managers are required to complete annual compliance checklists which are reviewed by management for instances of non-compliance with laws and professional standards

77. The investment strategy of the Fund is included in the Statement of Investment Principles which was last updated in September 2018. The Fund has adopted a risk/return asset framework as the basis for modelling and agreeing the investment strategy. The Fund is made up of 44% equities, a 4% decrease from 2018/19. The Fund continues to invest in other assets classes such as long-lease property, private credit and infrastructure, by partnering with Lothian Pension Fund.

78. The investment strategy focuses on increasing the diversification of the portfolio, including increasing allocations in income generating assets and assets which offer a greater level of protection from inflation. The strategy also takes the unpredictability of future economic conditions into consideration and continues to diversify in order to be more resilient to future challenges.

79. Investment return and risk are inextricably linked, and it is not possible for us to comment on the relative performance of the Fund's investments given the risk exposure of the asset allocation and investments made. Although asset allocation is largely in line with the Fund's investment strategy, the Fund retains overweight positions in equity as the implementation of the current investment strategy continues. Management are working with the Investment Consultant to identify appropriate opportunities to invest, in line with the agreed strategy.

80. The Covid-19 outbreak dominated markets over Q1 2020, with the social and economic impacts of the virus resulted in heightened volatility and negative performance across the majority of asset classes. The rebalancing and diversification work of the fund, which has been ongoing for the past 5 years, has meant the full effect of the market crash has not been felt by the Fund.

Management Expenses

81. There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the Council and oversight and governance costs.

82. External investment manager fees are agreed in the respective mandates governing their appointments. The fees are relative to the risk and complexity involved in managing a particular asset and strategy.

83. Investment management expenses have decreased from £5.8 million in 2018/19 to £5.3 million in 2019/20. The main reason for this decrease in expenses relates to the 2.4% decrease in asset value.

84. The Fund has encouraged all of its listed equity investment managers to sign up to the Code of transparency and has engaged with managers of other asset classes to do the same.

85. The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses.

National performance audit reports

86. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, we published reports which may be of interest to the Fund. These are outlined in [Appendix 3](#) accompanying this report.

Appendix 1

Action plan 2019/20

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Pensioner validation using ATMOS reports</p> <p>As part of our review of pension payment controls, we requested a sample of ATMOS match reports for testing. These reports are used by management to identify deceased pensioners so that pension payments are stopped in a timely manner, minimising overpayments.</p> <p>The ATMOS match reports we received for testing were five months old. Therefore, there is no evidence that the matches have been investigated by management in a timely manner.</p> <p>Risk</p> <p>There is a risk that, without prompt investigation by management, pensions are being overpaid.</p>	<p>ATMOS reports should be reviewed and any matches investigated in a timely manner to prevent any overpayments to deceased pensioners.</p> <p>Paragraph 40</p>	<p>Action being taken to address this, including the training of further members of the Pensions Administration Team to remove Single Point of Failure</p> <p>Responsible officer</p> <p>Ian Angus, HR Shared Services Manager</p> <p>Agreed date</p> <p>31 October 2020</p>
2	<p>Validation of overseas pensioners</p> <p>Validation of pensioners is considered a key control that should be in place to ensure that pensioners in receipt of pensions are still eligible to receive payment.</p> <p>We identified that, whilst letters and statements are issued to overseas pensioners, the process to ensure their existence, has not been carried out during 2019/20.</p> <p>Risk</p>	<p>The existing process in place should be reviewed to ensure it is still appropriate. The process should be actioned on a frequent basis to ensure existence of overseas pensioners.</p> <p>Paragraph 40</p>	<p>Overseas Pensioners have been written to and asked to provide confirmation by 30 September 2020, any failures to respond will result in pension payment being suspended for the October payroll</p> <p>Responsible officer</p> <p>Ian Angus, HR Shared Services Manager</p> <p>Agreed date</p> <p>31 October 2020</p>



No. Issue/risk

Recommendation

Agreed management action/timing

There is a risk that without adequate controls being in place to validate the existence of pensioners, pensions are paid to deceased pensioners

Follow up of prior year recommendations

3 Key reconciliations are not being performed

On selecting a sample of debtors and creditors for further testing, we found that several balance sheet codes (e.g. pension suspense accounts) are not being reviewed or reconciled.

Risk

There is a risk of uncorrected errors not being identified on a timely basis.

Management should perform monthly reconciliations across payroll to ensure all balances are investigated and adjusted when necessary.

Outstanding

Work continues on the remaining balance sheet codes and monthly reviews will be implemented

Responsible officer

Ian Angus, HR Shared Services Manager

Agreed date

31 October 2020

4 Reconciliation of pensions paid figure

There is no monetary reconciliation performed to show the total pensions paid figure agrees with the ledger. Therefore, the total pensions paid figure cannot be tied back to the ledger.

The HRSS manager advised that there has never been a reconciliation performed between pensions paid figure and the financial ledger.

A monthly report run for differences in payments from one month to the next is available but unfortunately due to work pressures and staff shortages this has not been completed for this financial year. This would be an effective control over the pensions paid figure on a month by month basis.

Risk

The figures in the financial ledger could be under or overstated.

The pensions paid figure should be reconciled month on month and variances to the ledger investigated. Management should perform monthly reconciliations between the pensions paid figure and the ledger.

UPDATE 2019/20

Whilst there is an automated nature to the transfer of the figures between the payroll system and ledger data, there is a residual risk that manual intervention to the financial ledger codes may impact ledger data. The inclusion of this control will strengthen the control environment.

Outstanding

Report used to undertake the verification of the month on month payments has been updated to include the ledger information, this will be reconciled to the ledger entries on a monthly basis to ensure there are no additional entries processed

Responsible officer

Ian Angus, HR Shared Services Manager

Agreed date

31 October 2020



No.	Issue/risk	Recommendation	Agreed management action/timing
5	<p>Financial & HR Capacity</p> <p>We found that staff capacity is still showing signs of pressure. There is dependency on key staff in Finance and in Human Resources Shared Services (HRSS).</p> <p>Strain on staff resources in HRSS has meant key reconciliations and working papers were not available or prepared to a level suitable for audit from HRSS.</p>	<p>Resource requirement of the Pension Fund should be assessed within both departments and addressed to ensure administration of the Fund is efficient and effective.</p>	<p>In progress</p> <p>Through discussions with management, we noted a new staff member has been appointed within the finance team which will reduce the key dependency on one member of staff in this department.</p> <p>Within the HRSS team, we were advised that whilst there are no staff capacity issues in terms of staff numbers, there has been various staff changes/unexpected absences which have caused some challenges.</p> <p>With ongoing challenges and uncertainty anticipated for the fund including work required on the outcome of the GMP reconciliation and the McCloud judgement, the outcomes of these will be monitored and resources will be reviewed for these additional challenges.</p> <p>Management are continuing to monitor this.</p> <p>Revised Management Action</p> <p>Impact of additional challenges through legislative changes will be monitored to ensure there is appropriate staffing levels to deal with this and business as usual. Additionally, we are in the process of implementing Members Self Service which help reduce the number of routine enquiries from scheme members where they will be able to obtain quotes directly via the self service functionality and removes the need to issue Annual</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			<p>Benefit Statement in paper format.</p> <p>Responsible officer</p> <p>Ian Angus, HR Shared Services Manager</p> <p>Agreed date</p> <p>31 March 2021</p>
6	<p>Evidence of review of exception reporting</p> <p>Controls over the pension payroll such as the investigation of exception reporting were in place. However, there was no evidence of management review of the control.</p> <p>Risk</p> <p>There is a risk that without evidence of review, the quality key control processes deteriorate to a point where the control is no longer effective.</p>	<p>Procedures should be put in place to ensure controls are adequately reviewed and monitored by management to ensure their efficacy is maintained.</p>	<p>Complete</p> <p>We confirmed that processes are now in place to detail management review of the controls in place.</p>
7	<p>Training and development</p> <p>Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. During 2018/19 28% of Committee members and 13% Board members did not attend two or more training sessions.</p> <p>Risk</p> <p>Members do not have or maintain the expertise required to monitor and scrutinise Pension Fund performance effectively.</p>	<p>Pensions Committee and Pension Board members should ensure that they keep their pensions knowledge up to date and take advantage of the training and development opportunities offered.</p>	<p>Complete</p> <p>We confirmed that for 2019/20 all members of the Pensions Committee and Pensions Board met their training requirements. This will be monitored each year.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		Results and conclusions
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing on prepayments and accruals.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>From controls and substantive testing carried out in year, there was no evidence of management override of controls.</p> <p>Conclusion: Satisfactory</p>
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>The Code of Audit Practice and the Financial Reporting Council's Practice Note 10 (revised) expand the ISA 240 risk of fraud over income (see paragraph 5 below). As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>Evaluation of the effectiveness of systems for expenditure recognition and recording</p> <p>Review of custodian arrangements and completion of 'review of work by service auditors' in accordance with ISA 402 for the custodian.</p> <p>Analytical procedures on expenditure streams.</p> <p>Substantive testing of expenditure.</p>	<p>Our work did not identify any issues.</p> <p>Conclusion: Satisfactory</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Estimations, Judgements and Classifications</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation. Investments include level 3</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500, for the actuary.</p>	<p>From our 'review of the work of an expert' and our substantive testing we did not identify any issues in relation to this risk.</p> <p>An 'Emphasis of Matter' paragraph is included in the</p>

Audit risk	Assurance procedure	Results and conclusions
<p>investments such as unquoted equities, where valuations involve the application of considerable judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. This subjectivity entails a risk of misstatement in the financial statements.</p>	<p>Confirmation of valuations to valuation reports and/ or other supporting documentation.</p>	<p>independent auditor's report to draw attention to the impact of Covid-19 on property investment valuations. The audit opinion is not modified in respect of this matter.</p> <p>Conclusion: Satisfactory</p>

Appendix 3

Summary of national performance reports 2019/2020



		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

Scottish Borders Council Pension Fund

2019/20 Annual Audit Report

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FINAL PENSION FUND ANNUAL REPORT AND ACCOUNTS 2019/20

Report by Executive Director Finance and Regulatory

AUDIT AND SCRUTINY COMMITTEE

28 September 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report provided the Audit and Scrutiny Committee with an opportunity to scrutinize the final Annual Report and Accounts for the Pension Fund for 2019/20 prior to their submission to Scottish Borders Council for signature.**
- 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 final Annual Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 Audit Scotland has completed their audit and have provided an unqualified independent audit opinion.
- 1.4 Audit Scotland identified two new recommendations and 3 recommendations from 2018/19 audit requiring action and these have been accepted by management and will be enacted within the agreed timescales.
- 1.5 This report has been presented to members of both the Pension Fund Committee and the Pension Fund Board to recommend the final Annual Report and Accounts for 2019/20(the Annual Report) for approval prior to Scottish Borders Council for signature.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Audit and Scrutiny Committee note the 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 final Annual Report and Accounts for 2019/20 (the Annual Report) is attached at **Appendix 1**. The Annual Report has also been presented to Pension Fund Committee and Pension Fund Board on the 24 September 2020.
- 4.2 The draft Annual Report was made available for public inspection for a 3-week period commencing 30 June 2020 and has been subject to a full external audit by Audit Scotland.
- 4.3 Audit Scotland has completed their audit and have provided an unqualified independent audit opinion.
- 4.4 The Scottish Borders Council's Pension Fund Annual Audit Report highlighted two new recommendations and 3 recommendations from 2018/19 audit. The areas in question are shown in Appendix 1 "Action Plan 2019/20" of the External Auditor's Annual Pension Fund Audit Report. The areas identified are:

2019/20 Recommendations

- Management should perform monthly pensioner validation using ATMOS reports and any matches investigated in a timely manner.
- Management should perform regular validation of overseas pensioners to ensure existence of overseas pensioners.

2018/19 Recommendations

- Management should perform monthly reconciliations are being performed across payroll to ensure all balance across payroll are investigated and adjusted when necessary.
- The pensions paid figure should be reconciled month on month and variances to the ledger investigated. Management should perform monthly reconciliations between the pensions paid figure and the ledger.
- Resource requirement of the Pension Fund should be assessed within both departments and addressed to ensure administration of the Fund is efficient and effective.

These recommendations have been accepted by Management and will be enacted within the agreed timescales.

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 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 to the Scheme of Administration or Delegation 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.

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: Pension Fund Committee and Board 24
September 2020**

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
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Scottish Borders Council
Pension Fund

annual report and accounts

for the year to 31 March 2020



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SECTION 1

INTRODUCTION

CHAIRMAN'S REPORT



Introduction

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

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

Highlights of the Year

Pension Fund Committee/Pension Board

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

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

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

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

Investment Assets

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

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

Statement of Responsible Investment

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

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

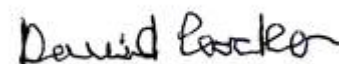
Pensions Administration

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

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

Acknowledgement

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



Chairman, Pension Fund Committee
Scottish Borders Council

SECTION 2

MANAGEMENT COMMENTARY

MANAGEMENT COMMENTARY SUMMARY

STRATEGY AND OBJECTIVES

Scottish Borders Council Pension Fund's primary aim is "to provide for members, pension and lump sum benefits on their retirement or for their dependants, benefits on death before or after retirement, on a defined benefits basis". All the longer term policies, objectives and strategies of the Fund reflect this aim.

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

GOVERNANCE

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

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

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

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

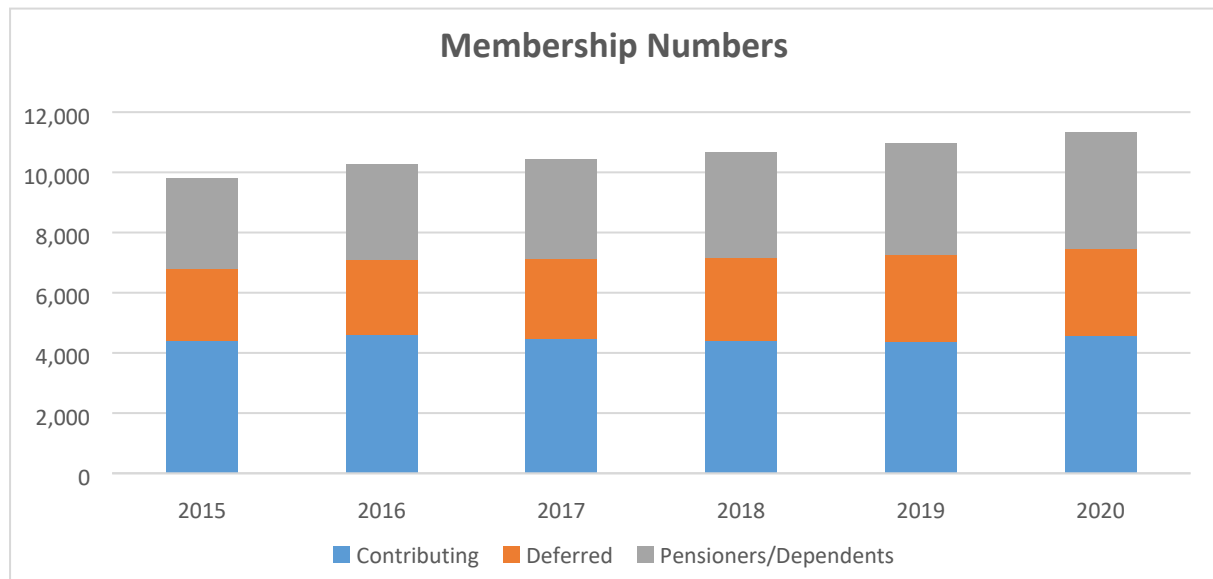
ADMINISTRATION AND MEMBERSHIP

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

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

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

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



COMMUNICATION

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

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

FUNDING

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

INVESTMENT

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

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

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

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

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

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

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

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

David Parker
Chair
Pension Fund Committee

Rob Dickson
Exec Director Corporate
Improvement & Economy
Scottish Borders Council

David Robertson CPFA
Exec Director Finance &
Regulatory
Scottish Borders Council

KEY TRENDS

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

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

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

SCHEME ADMINISTRATION

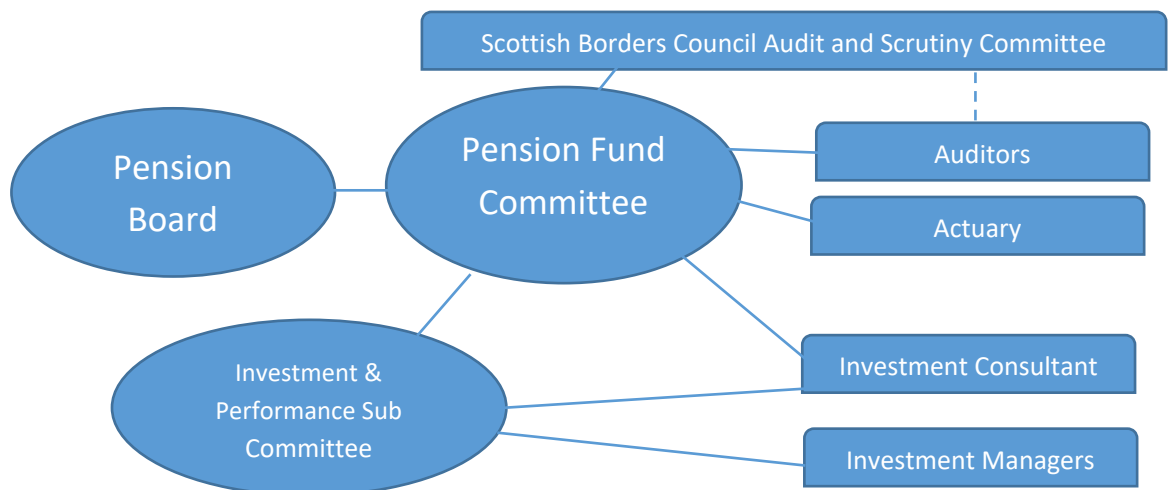
The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority).

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

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

SCHEME GOVERNANCE

The Governance structure of the Fund can be seen below including the roles each of the parties undertakes. The Pension Fund Committee and Pension Board meet jointly four times a year, with papers and minutes being available one week prior to the meeting. Scottish Borders Council Pension Fund Governance:-



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

Pension Board – assists the Committee in securing compliance with the regulations, other legislation and requirements of the Pensions Regulator. The Board consists of four employer representatives and four employee Union representatives.

Investment & Performance Sub-Committee – develops investment strategy and monitors investment performance. Consists of the Pension Fund Committee Members, one employer and one employee representative from the Pension Board.

Actuary – provides advice on funding, this role is currently undertaken by Hyman Robertson.

Investment Consultant – provides advice on all aspects of investment objectives, strategy and monitoring, this role is currently undertaken by Isio.

Investment Managers – manage the investment portfolios.

Auditors – provide audit assurance that the Fund is adhering to regulations, other legislation and requirements of the Pension Regulator. The internal audit function is provided by Scottish Borders Council's Internal Audit department and the external audit function is provided by Audit Scotland.

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

PENSION FUND COMMITTEE

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



Councillor David Parker - Chair



Councillor Simon Mountford – Vice Chair



Councillor Jim Brown



Councillor Gordon Edgar



Councillor Carol Hamilton



Councillor Donald Moffat



Councillor Sandy Scott

PENSION FUND BOARD

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

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

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

Employer Representatives:

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

Employee Representatives:

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

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

INVESTMENT & PERFORMANCE SUB-COMMITTEE

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

RISK MANAGEMENT

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

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

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

**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 (15-25)

AMBER – High (6-12)

GREEN – Low (1-5)

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

TRAINING POLICY & PRACTICE STATEMENT

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

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

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

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

Training attendance

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

The training covered the following areas:

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

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

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

ANNUAL GOVERNANCE STATEMENT

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

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

Governance Framework

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

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

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

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

Review of Framework

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

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

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

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

Internal Audit Opinion

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

During 2019/20 the following assurance reviews were undertaken:

- Governance and decision-making
- Risk Management

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

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

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

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

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

Improvement Areas of Governance

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

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

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

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

Impact of COVID-19

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

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

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

Certification

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

Councillor David Parker
Chairman

Pension Fund Committee

Rob Dickson
Executive Director Corporate
Improvement & Economy
Scottish Borders Council

5 November 2020

ANNUAL GOVERNANCE COMPLIANCE STATEMENT

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

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

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

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

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

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

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

PENSION ADMINISTRATION STRATEGY

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

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

PERFORMANCE

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

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

Employer Performance Measures

Service Standards

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

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

Contribution Payments

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

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

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

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Administering Authority Performance Measures

Service Standards

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

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

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

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

Other Measures

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

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

Key Administration Tasks

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

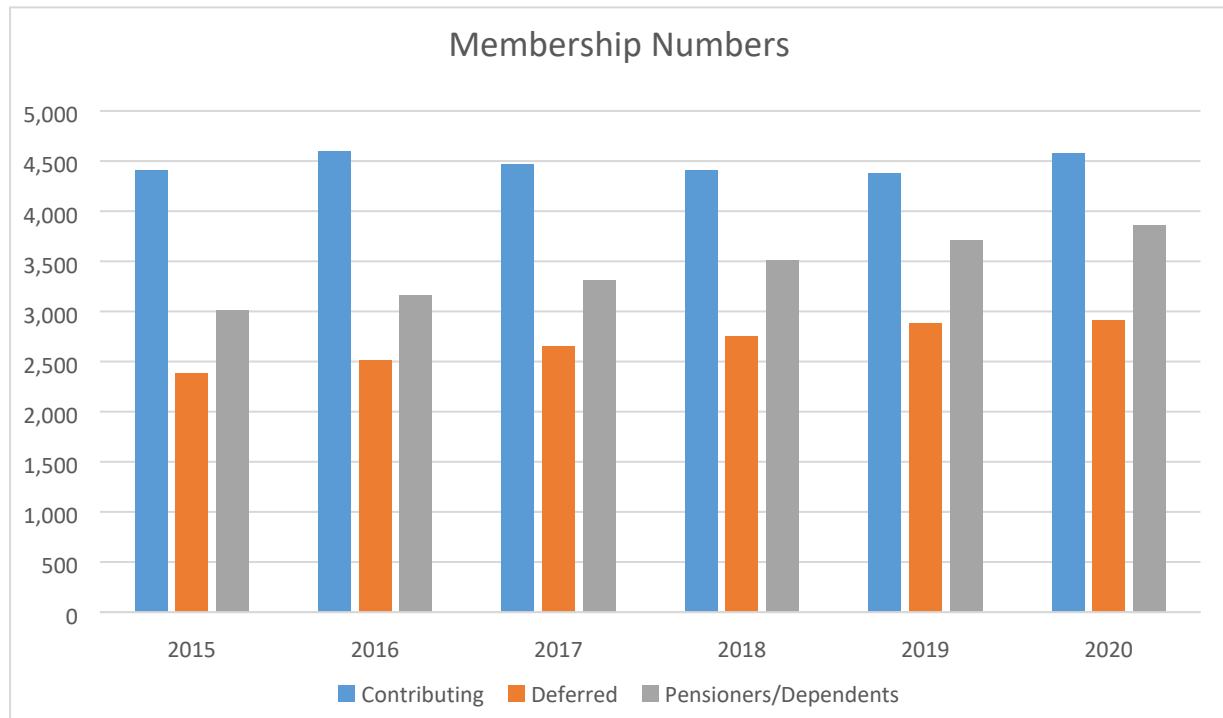
MEMBERSHIP

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

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

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



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

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

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

COMMUNICATION POLICY AND PERFORMANCE

COMMUNICATION POLICY

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

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

The objective of this policy is to ensure that: -

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

The communication methods utilized are:-

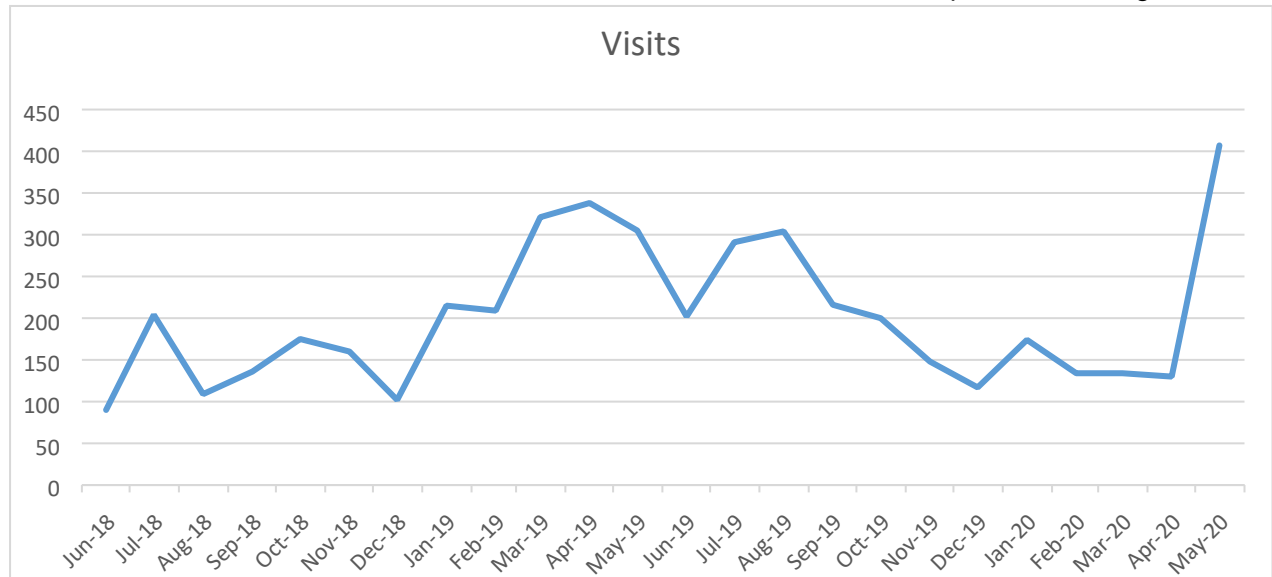
Fund website to provide information to as many stakeholders as possible at a time that suits them we provide access to the following: -

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

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

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

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



COMMUNICATION PERFORMANCE

The following communications took place during 2019/20

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

FUNDING STRATEGY STATEMENT

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

The purpose of the Funding Strategy Statement is:

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

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

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

Funding Objectives (Section 1, page 2 of FSS)

To:

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

Funding Strategy (Section 5, page 5 of FSS)

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

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

ACTUARIAL STATEMENT

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

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

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

Triennial Valuation 2017

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

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

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

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

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

Employer Contribution Rates

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

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

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

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

Valuation for Statutory Accounts at 31 March 2020

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

STATEMENT OF INVESTMENT PRINCIPLES

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

The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended, require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) which includes the policy on:

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending.

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

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

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

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

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

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

INVESTMENT STRATEGY

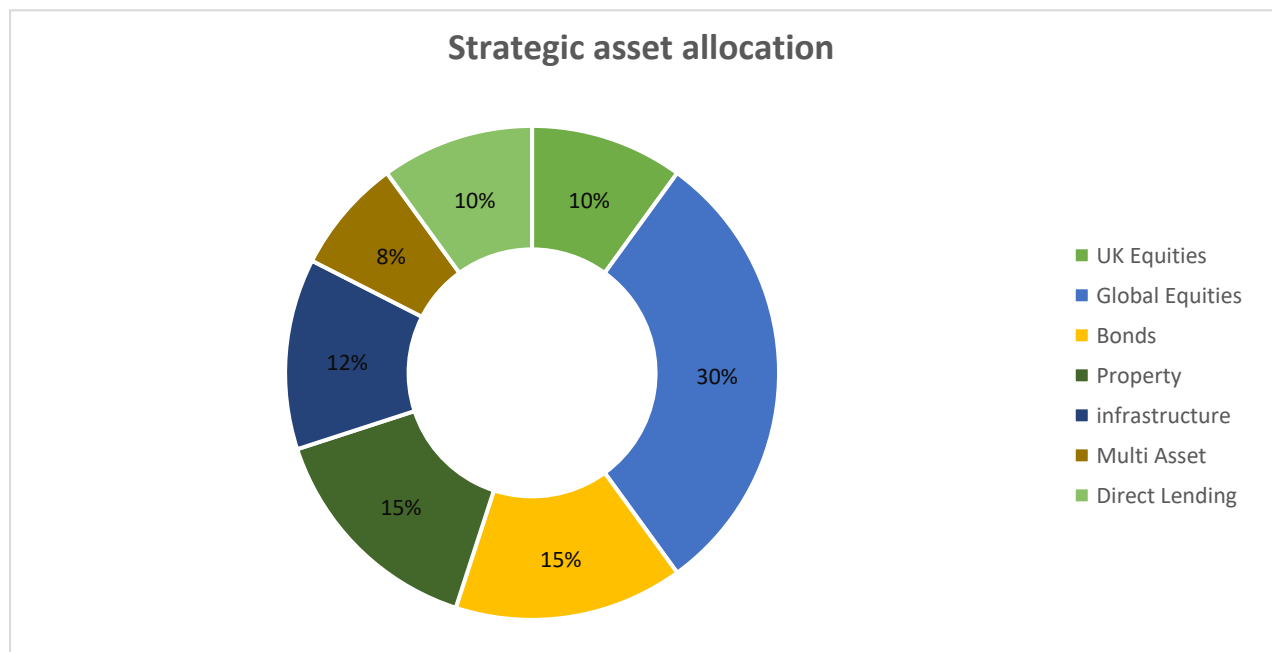
The Fund's investment objective is to support the Funding Strategy by adopting an Investment strategy and structure, which incorporates an appropriate balance between risk and return.

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

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

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

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



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

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



BLACKROCK



Morgan Stanley



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



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:

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

Investment Manager Allocation

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

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

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

Holdings

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

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

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

INVESTMENT PERFORMANCE

MARKET CONTEXT

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

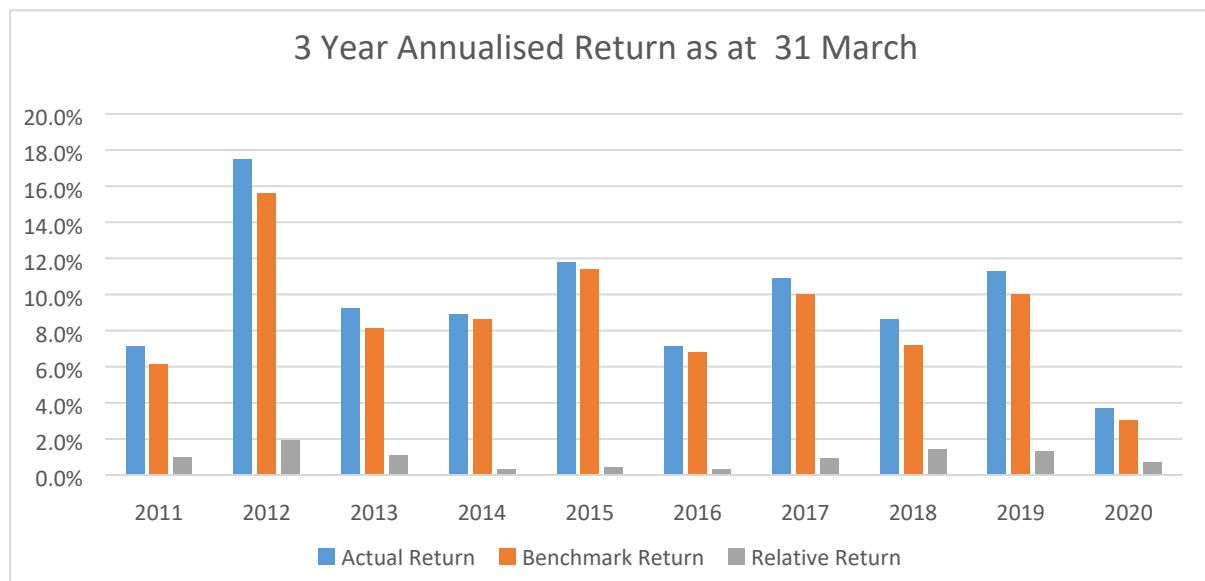
Real assets such as long lease property and infrastructure had a positive if slow performance in Q2 2019 with many deals delayed due to uncertainty around BREXIT. The following two quarters followed a similar pattern with positive returns. Q1 2020 saw a small reduction in valuations due to COVID-19 with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

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

FUND PERFORMANCE

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

Rolling 3 year annualised performance



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

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

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

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

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



RESPONSIBLE INVESTMENT

Scottish Borders Council Pension Fund's (SBCPF) overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role the Fund believes that a positive approach to Environmental, Social and Corporate Governance (ESG) issues can positively affect the financial performance of investments whereas a failure to address these considerations can have a detrimental effect. In accordance with Trustee fiduciary duty, it is imperative that we act 'prudently, responsibly and honestly' and therefore consider both short term and long-term risks when making investment decisions.

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

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

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

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

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

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



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

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

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



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

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

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

SECTION 3

FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITIES

COUNCILS RESPONSIBILITIES

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

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

EXECUTIVE DIRECTOR FINANCE & REGULATORY RESPONSIBILITIES

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

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

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

The Executive Director Finance & Regulatory has also:

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

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

David Parker
Chairman Pension Fund Committee
Scottish Borders Council

David Robertson
Executive Director Finance and Regulatory
Scottish Borders Council

5th November 2020

FUND ACCOUNT for year ending 31 March 2020

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

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

NET ASSET STATEMENT as at 31 March 2020

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

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

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

David Robertson CPFA
Executive Director Finance and Regulatory

5th November 2020

NOTES TO THE ACCOUNTS

1 DESCRIPTION OF THE FUND

A) General

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

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

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

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

Organisations participating in the Fund include:

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

B) Funding

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

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

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

C) Benefits

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

The table below gives a summary of the scheme benefits:

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

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

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

The accounts have been prepared on a going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

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

Contributions Income

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

Transfers to and from other schemes

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

Investment Income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Benefits Payable

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

Taxation

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

Administration Expenses

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

Investment Management Expenses

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

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

Net Assets Statement

Valuation of Investments

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

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

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

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

Foreign Currency Transactions

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

Derivatives

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

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

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

Cash and Cash Equivalents

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

Actuarial Present Value of Promised Retirement Benefits

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

Additional Voluntary Contributions (AVCs)

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

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

Accounting Standards that were issued but not yet adopted.

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

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund Liability

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

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

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

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

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

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

COVID 19 – Property

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

6 EVENTS AFTER THE REPORTING DATE

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

7 CONTRIBUTIONS RECEIVABLE

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

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

8 TRANSFERS IN

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

9 BENEFITS PAYABLE

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

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

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

11 MANAGEMENT EXPENSES

2018/19 £'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.

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14(a) Reconciliation of Movement in Investment and Derivatives

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

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

Significant Transactions during the year:

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

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Investments representing more than 5% of Net Assets

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

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

14(b) Analysis of Investments

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

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

14(c) Investment Analysed by Fund Managers

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

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

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

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

Fund Performance

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

14 (d) Stock Lending

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

14(e) Property Holdings

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

15 ANALYSIS OF DERIVATIVES

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

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

16 FAIR VALUE BASIS OF VALUATION

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

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

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16(a) Fair Value Hierarchy

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

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

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

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

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

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

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Sensitivity of Assets Valued at Level 3

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

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

17 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

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

17 (a) Net Gains and Losses on Financial Instruments

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

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

18 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

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

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

Market Risk

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

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

Other Price Risk

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

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

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

Other Price Risk – Sensitivity Analysis

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

Interest rate risk sensitivity analysis

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

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

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

Currency Risk

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

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

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

Currency Risk – Sensitivity Analysis

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

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

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

Credit Risk

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

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

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

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

Liquidity Risk

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

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

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

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

19 FUNDING ARRANGEMENTS

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

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

2017 Actuarial Valuation

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

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

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

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

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

Valuation Assumptions

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

Financial Assumptions

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

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

Mortality assumptions

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

Commutation Assumption

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

20 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

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

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

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

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

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

21 CURRENT ASSETS

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

22 CURRENT LIABILITIES

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

23 ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

24 AGENCY SERVICES

There are no agency services agreements in place.

25 RELATED PARTY TRANSACTIONS

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

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

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

Governance

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

26 KEY MANAGEMENT PERSONNEL

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

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

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

27 CONTINGENT ASSETS

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

28 CONTINGENT LIABILITES

GMP Equalisation

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

GMP Reconciliation

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

29 POST BALANCE SHEET EVENTS

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

SECTION 4

INDEPENDENT AUDITORS REPORT

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

Report on the audit of the financial statements

Opinion on financial statements

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

In my opinion the accompanying financial statements:

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

Basis for opinion

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

Emphasis of matter – Property Investment Portfolio Valuations

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

Conclusions relating to going concern basis of accounting

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

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

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

Risks of material misstatement

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual report

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

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

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

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

INTERNAL AUDIT WORK TO AUGUST 2020
Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE
28 September 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 April to 31 August 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21 is detailed in this report. Two final Internal Audit reports have been issued, with 0 recommendations made associated with the reports.
- 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 assurance reports issued in the period from 1 April to 31 August 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21; and**
 - b) **Notes the Internal Audit Assurance Work in Progress and Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter.**
 - c) **Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2020/21 was approved by the Audit and Scrutiny Committee on 9 March 2020. Internal Audit has carried out the following work in the period from 1 April to 31 August 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:
- Asset Registers
 - Cyber Essentials
- 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.

Current Internal Audit Assurance Work in Progress

- 3.5 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2020/21 consists of the following:

Audit Area	Audit Stage
Performance Management Local Government Benchmarking Framework (LGBF)	Draft report issued
Business Support Grants	Drafting the report
Treasury Management	Testing underway
EU Funded Programmes LEADER and EMFF	Testing underway
Community Equipment Service	Testing underway
Social Work Localities – Administration of allpay cards	Testing underway

Audit Area	Audit Stage
Benefits Assessment - Scottish Welfare Fund	Testing underway
Integrated People, Financial and Business Planning	Testing underway
Foster and Kinship Carer Payments	Audit Assignment prepared

Internal Audit Consultancy and Other Work

- 3.6 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- a) Provide 'critical friend' internal challenge and quality assurance through engagement in meetings of programmes and projects involving major change (Fit for 2024, Information Governance Group) and attendance at the Contract and Supplier Management Implementation Group, and Social Work Performance Board.
 - b) Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual meetings of SLACIAG Chief Auditors Group meeting (Chief Officer Audit & Risk), CIIA Practitioners Forum (Principal Internal Auditor) and Computer Audit Sub-Group (Senior Auditor/Internal Auditor). The Chief Officer Audit & Risk and Principal Internal Auditor have also joined various virtual internal audit forums hosted by CIIA and EY for knowledge sharing.
 - c) Planning and carrying out the annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) to assess conformance with the Definition of Internal Auditing and Standards and the application of the Code of Ethics.
 - d) The Internal Audit Team have also provided a range of advice and support in other areas of policy and procedure development: School Fund Policy, and Petty Cash and Purchase Cards Policy and Procedures.

Recommendations

- 3.7 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.

- 3.8 The table below summarises the number of Internal Audit recommendations made during 2020/21:

	2020/21 Number of Recs
High	0
Medium	0
Low	0
Sub-total reported this period	0
Previously reported	0
Total	0
Recommendations agreed with action plan	0
Not agreed; risk accepted	0
Total	0

4 SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2019

- 4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 4.2 Each year SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams. A copy of the report for 2019 is provided for information (Appendix 2).
- 4.3 In particular, the Audit and Scrutiny Committee may wish to note that:
- The Group considers learning and development needs and procures training for its members via the Training Sub-Group. Economies of scale make this a cost effective way of undertaking training courses;
 - Working groups are set up to consider time-specific matters of interest; such as the development of the 'peer review' approach for the periodic (at least 5 yearly) External Quality Assessment against the Public Sector Internal Audit Standards (PSIAS); and
 - Sub-groups are in place to deliver specific remits e.g. Computer Audit (CASG) and Counter Fraud (SLAIG).
- 4.4 The Chief Officer Audit and Risk has been Chair 2014-2016 and a member of its Management Committee for many years to influence the work of SLACIAG, and attends / joins the SLACIAG quarterly meetings. One of the Internal Auditors is a member of CASG, and thus attends / joins those Sub-Group regular meetings. Members of the Internal Audit team attended all or part of the SLACIAG Conference in June 2019, which had the theme of 'Connections Collaborations Catalysts', to hear from a range of engaging speakers and to participate in workshops.
- 4.5 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within Internal Audit in local government to reinforce the important statutory role of Internal Audit. It is important that the Audit and Scrutiny Committee acknowledges the benefits to the Scottish Borders Council Internal Audit function arising from its participation in this national forum.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

- (a) Key stakeholders have been consulted and risk registers have been considered at the start of each audit engagement to capture potential areas of risk and uncertainty more fully.
- (b) If audit recommendations are not implemented, Management may not be able to demonstrate effective management of risks through improved internal controls and governance.

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

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

6 CONSULTATION

- 6.1 The Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 6.2 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 23 June 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

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Asset Registers</p> <p>No: 009/013</p> <p>Date issued: 23 July 2020 Draft; 18 August 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to consider the adequacy of systems, processes and controls that are in place to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities, including the data migration and transition to utilising Technology Forge Cloud.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Asset values per the Council's accounting ledger (Business World) and its asset register (Technology Forge) are reconciled regularly. Amendments originating within Technology Forge are tracked and mapped to Business World on a weekly basis. All reconciling items are actioned timeously. Asset conditions are reviewed on an at least quarterly basis by service managers and finance staff. • The Council has published an account of how meeting its objectives and priorities are reflected in its deployment of resources within the Capital Plan (Capital Investment Strategy) • Processes were in place which evidence that data was transferred completely and accurately from Technology Forge and its cloud-based successor in August 2019. • The risk that lack of access by Managers to assets under their charge due to COVID-19 was lessened due to the periodic review of assets described above. Managers were able to undertake inspections and return information to finance staff. <p>Internal Audit are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement in the formalisation of SAMPs for IT and Fleet assets and development of a SAMP for Property assets in line with best practice. Management actions are underway in respect of these and we have made no recommendations.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: Cyber Essentials</p> <p>No: 237/004</p> <p>Date issued: 23 July 2020 Draft; 07 August 2020 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to examine the self-evaluation and evidence associated with Cyber Essentials requirements.</p> <p>The Council is required to obtain Cyber Essentials certification each year. The certification process reviews the Council's corporate network and security arrangements. The process certifies that the Council meets a level of security which minimises the risk of vulnerability to common security attacks. The Council participates in the Cyber Essentials Plus process which requires examination of its arrangements by experts sponsored by the National Cyber Security Centre. The requirement to achieve certification is contained in a directive from the Scottish Government.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Accreditation was achieved within agreed timescales, and the control environment described and evidenced in the Council's submission met the required standard. • Minor recommendations were made in the report from the certifying body and improvement actions have been implemented. • The process gives Management assurance that common risks to the corporate network have been effectively managed. <p>Internal Audit are able to provide 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 were identified during the review by the certifying body and these have been addressed.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.



ANNUAL REPORT FROM THE CHAIR – 2019

“WORKING TOGETHER TO SUPPORT THE KEY ROLE OF INTERNAL AUDIT”

1. INTRODUCTION

- 1.1 Membership of the Scottish Local Authorities Chief Internal Auditors’ Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and the Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 The Group’s vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of local authority internal audit, governance, and operations. In support of that vision the Group has the following objectives:
- To secure a quality and responsive service for members of the group;
 - To develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
 - To strengthen links and build long term relationships across the internal audit community within the public service;
 - To provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice;
 - To consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price;
 - To uphold the groups key values including: Respect; Openness and Honesty; Adding Value; Professional Team working; Sharing Best Practice; Integrity; Continuous Improvement.
- 1.3 The purpose of this Annual Report to key stakeholders is to provide an update on the Group’s activities and achievements over the course of 2019 and to recognise actions required to achieve our vision.
- 1.4 SLACIAG has two sub-groups whose work is also reflected in this report.
- The Computer Audit Sub-Group (CASG) and,
 - The Scottish Local Authorities Investigators’ Group (SLAIG).

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2019

- 2.1 We held our AGM in March 2019 and I continued my two-year appointment as Chair until March 2020.
- 2.2 Since 2018 the Chairs of both CASG and SLAIG attend the SLACIAG Management Committee to benefit from their sectoral expertise and to ensure synergy. The SLACIAG Constitution was amended at that time to reflect this change. Our Constitution remains under review to ensure it is fit for purpose going forward.
- 2.3 In June 2019 we held our bi-annual Conference at Dumfries House in East Ayrshire. The Conference was held over two days and attended by 98 delegates from our internal audit teams. The conference entitled “Connections Collaborations Catalysts” focused on procurement, contract management and cyber security with speakers from Scottish Government, Audit Scotland, Scotland Excel, DXC Technology, KPMG and four local authorities (East Ayrshire, Glasgow City, North Lanarkshire and Scottish Borders). This was the first time SLACIAG has used Dumfries House and it proved to be a fantastic venue in terms of value and suitability – an impressive setting befitting of the status of internal audit. The event featured in CIPFA Scotland’s Regional Development Plan 2020 report.

2.4 During 2019 we met on four scheduled occasions with business coverage summarised as follows:

SLACIAG MEETINGS 2018		
Date	Host	Topics / Speakers
March 2019	South Lanarkshire Council, Hamilton	<p>“Targeting the Use of Audit Resources”</p> <ul style="list-style-type: none"> John Cornett, Audit Director, Audit Scotland – risk assessment and the role of assurance mapping. <p>AGM</p>
June 2019	Conference East Ayrshire Dumfries House, Cumnock	<p>“Connections Collaborations Catalysts”</p> <ul style="list-style-type: none"> Focused on procurement, contract management and cyber security. See paragraph 2.3 above
September 2019	Dundee City Council	<p>Follow-on from the Conference: “Cyber Resilience Workshop”</p> <ul style="list-style-type: none"> Paul Chapman, Head of Public Sector Cyber Resilience, Scottish Government Andy Grayland, Chief Information Security Officer, Digital Office Gemma Diamond, Senior Audit Manager, Audit Scotland Ian Aston, ICT Security Manager, East Ayrshire Council
November 2019	West Dunbartonshire Council, Dumbarton	<p>“Data Analytics”</p> <ul style="list-style-type: none"> Peter Hampton/Eddie McGinney, NHS Counter Fraud Services Mitchell Collins/Andrew Low, Scott-Moncrieff Morag Campsie, Senior Manager, Audit Scotland <p>“Trust in Audit”</p> <ul style="list-style-type: none"> Fiona Kordiak – Chair of CIPFA Scotland

2.5 All of the meetings continue to be well attended, re-affirming the value of the Group to members through the variety of topics considered by the Group over the course of the year and the calibre of speakers who attended and presented. This is particularly pleasing as we continue a period of significant change across Local Government and for Internal Audit. The Group strives to ensure involvement across the whole profession with an ever increasing emphasis on the involvement of members of Internal Audit teams, particularly through CASG and SLAIG, as well as Heads of Internal Audit.

2.6 There is a continuing healthy interest in supporting various working groups (e.g. training and PSIAS External Quality Assessment) and the Management Committee. The Management Committee at the end of 2019 is as follows:

SLACIAG MANAGEMENT COMMITTEE 2019		
Eilidh Mackay	East Ayrshire Council	Chair SLACIAG
Paul Doak	North Ayrshire Council	Secretary SLACIAG
Kevin O’Kane	Stirling Council	Treasurer SLACIAG
Andrea McMahon	Renfrewshire Council	former Chair SLACIAG
Jill Stacey	Scottish Borders Council / Midlothian Council	former Chair SLACIAG
Colin McDougall	West Dunbartonshire Council	SLACIAG member (retired December 2019)
Francis Scott	Glasgow City Council	SLACIAG member (stood down 2019)

Jackie Clark	Perth & Kinross Council	SLACIAG member
Pamela Redpath	Dundee City Council	SLACIAG member
Paul Macaskill	Comhairle nan Eilean Siar	SLACIAG member
Laurence Slavin	Argyll & Bute Council	SLACIAG member
Avril Cunningham	Fife Council	SLACIAG member
Peter Moore	East Lothian Council	Chair CASG
Barry Moncur	East Dunbartonshire Council	Chair SLAIG

- 2.7 March 2018 had marked the first PSIAS deadline for completion of External Quality Assessments (EQAs), an exercise to be completed at least 5 yearly. Planning began in 2019 for EQA2 with most members continuing to participate in the peer review exercise.
- 2.8 At the AGM In March 2019 the Treasurer presented the draft annual accounts which were approved for audit. The Group's healthy financial position allowed the subscription rates to be held at the current level for another year and allow a variety of training opportunities to be promoted as well as subsidised delegate fees for the 2019 conference to support attendance. The audited accounts were presented at the November meeting.
- 2.9 The SLACIAG Management Committee meets up to twice each year and during 2019 we met in June during the Conference and in October. The SLACIAG Chair attends meetings of the CIPFA Scotland Branch Executive Committee. The Chair of the CIPFA branch addressed SLACIAG in November 2019.
- 2.10 During 2019 we sought to recruit nominees to be appointed as office bearers at the March 2020 AGM and I am delighted to confirm that we have nominees for all four posts – Chair, Vice Chair, Secretary and Treasurer with new members joining the Management Committee.

3. COMPUTER AUDIT SUB-GROUP

- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques. CASG meets three times per annum and the meetings continue to cater for computer audit knowledge from novice through to professional level and were attended by auditors from Local Authorities as well as from Strathclyde Partnership for Transport and Scottish Water.
- 3.2 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group with business as follows:

CASG MEETINGS 2019		
Date	Host	Topics / Speakers
May 2019	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> Group discussion covering cyber security projects and IT assets GDPR audit carried out by User access control audit carried out by East Lothian Council
August 2019	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> This meeting took the form of a workshop focused on data analysis and comprised of two presentations from Fife and August. Network security audit carried out by Fife. Audit report on fraudulent change of bank details by Fife.
November 2019	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> IT Supply Chain Assurance presentation by Allan Munn Use of IDEA v Excel – Ashley Bickerstaff, Glasgow City Council Group discussions around Business Continuity Plans, In House Cyber Security Training and Intellectual Property Rights Audit Report Presentations on BCP / DR and Treasury Management

4. SCOTTISH LOCAL AUTHORITY INVESTIGATORS SUB-GROUP (SLAIG)

- 4.1 The main aim of SLAIG, which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss counter fraud practices and developments. This includes raising awareness of updates to legislation, new and current topics of interest, and developments in counter fraud activities. SLAIG meets four times per annum.
- 4.2 The absence of statutory offences and the reliance on common law offences continues to be of concern and representation on this issue has been made to the Scottish Government to consider legislative powers similar to those available to Local Authorities in England. The response for statistical information from authorities remains very poor. Without the collation of the information it is unlikely that any further representation can be made regarding the legislative powers.
- 4.3 The Code of Practice on Interviewing, which all authorities will have to comply with, has not yet been released by Crown Office & Procurator Fiscal Service. The draft code is currently with the Law Officers for consideration.
- 4.4 Angus, Comhairle nan Eilean Siar, East Dunbartonshire, Fife, Glasgow City, Highland and Stirling concluded a Pilot exercise with the Audit Scotland in relation to data matching Small Business Bonus Scheme recipients. The pilot proved to be successful and it is envisaged that it will become mandatory in future National Fraud Initiative exercises.
- 4.5 The Group has heard from speakers on various topics of interest as follows:

SLAIG MEETINGS 2019		
Date	Host	Topics / Speakers
February 2019	CIPFA	Gary Smith, Scottish Borders Council – Fraud Vulnerabilities in NDR
May 2019	CIPFA	Ricky Hutton, Police Scotland – Insider Threat Robert Wylie, Transport Scotland – Blue Badge
August 2019	CIPFA	Stacy Keen, Pinsent Masons - APSE Training Karen McNeill, DWP – Joint Working Stuart Saunders, West Lothian – Case study
December 2019	CIPFA	Fiona Gray, Improvement Service – Data Hub

5. SUMMARY & KEY MESSAGES

- 5.1 In summary, SLACIAG has had another successful year through the efforts of its members. Individually and collectively this professional network helps to reinforce the important statutory role of internal audit and the value internal audit can add to an organisation especially in times of change.
- 5.2 On a continuous basis Heads of Internal Audit have responded positively and proactively to changing national and local environments by taking on extra responsibilities including shared services, arm’s length external organisations and Integration Joint Boards; often with reduced resources.
- 5.3 We welcome the 2019 revision to the CIPFA statement on, “The Role of Head of Internal Audit” which set out key messages for us and our employers including:
 - The head of internal audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively.
 - CIPFA considers it essential that public service organisations properly support their internal auditors to enable them to meet the standards.
- 5.4 Going forward there are three key challenges for us, CIPFA and our employers:
 - The requirement for our internal audit and corporate fraud teams to continue to step up to meet the challenges of change and transformation; and

- Strengthening the relationship between CIPFA and SLACIAG to ensure that we can fulfil our objective of being the key influencer on internal audit matters in local government in Scotland (for example being consulted on CIPFA internal audit statements) and influencers within our own organisations; and building on relationships with other key standard setting bodies most notably the IIA; and
- That our employers fully support us to meet the objectives of the CIPFA statement on “The Role of the Head of Internal Audit”; including reflecting on resources and positioning within the organisation.

6. ACKNOWLEDGEMENTS

- 6.1 Firstly, I would like to take this opportunity to thank the Committee and all Group and Sub-Group members for their strong support and contributions during my two years as Chair and note my thanks also to the four members of the Group who have stepped forward to be our new office bearers from 2020. The network relies on contributions from every one of us and I call upon those who do not regularly attend or contribute more widely to allow us to benefit from their involvement going forward.
- 6.2 Secondly, I would like to thank the Secretary and Treasurer who have remained as office bearers beyond their expected terms and those who have led and participated in our training and EQA working groups who have been generous in their support to the group. I am very grateful for their support.
- 6.3 Thirdly, I would like to thank those Councils who hosted our meetings during the year and all of the speakers who gave up time in their busy schedules to contribute to our learning and exchange of experience.
- 6.4 On a personal basis I would like to thank both East Ayrshire Council and my team for their continued support. My team actively supported the organisation of the SLACIAG Conference which also benefitted from a wider support within our Council. Our Chief Executive continues to support the positioning of internal audit within our Council where I report directly to her and sit on the Council Management Team.
- 6.5 Finally, I would like to note the contributions of Colin McDougall, West Dunbartonshire Council, who retired at the end of 2019 for his longstanding and active contribution to the Management Committee and to Francis Scott, Glasgow City Council, who stood down from the Management Committee, although he very much remains an active contributor.

Eilidh Mackay B.A. (Hons), CPFA
Chief Auditor, East Ayrshire Council
Chair of SLACIAG
8 March 2020

Local government in Scotland

Overview 2020



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
June 2020




The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission 

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Audit team

The core audit team consisted of: Carol Calder, Kathrine Sibbald, David Love and Claire Tennyson, with support from other colleagues and under the direction of Claire Sweeney.

Links

-  PDF download
-  Web link

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Chair's introduction



Local government in Scotland is under unprecedented pressure due to COVID-19. We have all seen examples of outstanding work by councils and their partners in recent months to deliver vital services to communities across Scotland as they have sought to deal with the unprecedented challenges of the pandemic with professionalism, compassion and kindness.

This report is the Commission's annual summary of the key challenges and performance issues faced by councils. The report was produced prior to the pandemic and, after careful consideration, it has been decided to issue the report now.

I believe that although the world in which councils are operating has dramatically changed in the last few months, the report still contains important messages which will be helpful as part of the recovery.

The precise scale and impact of COVID-19 on our communities, critical services and the wider economy is as yet unknown. However, I believe that the economic impact on public services will be very significant on funding as well as, through its social consequences, on demand.

For several years, councils have been dealing with increasing challenges and uncertainty while continuing to address the needs of local people and national priorities. The challenges are only going to grow as we deal with the immediate and longer-term implications of COVID-19 alongside existing pressures such as leaving the European Union, the climate emergency, population change, poverty and tackling inequality. We have emphasised before the need to make more fundamental change to the way services are delivered and improve long-term financial planning.

The crisis puts into clear focus the pivotal role of public services, including councils, in delivering not only the day-to-day services that communities rely on, but also in responding to risks. Indeed, it emphasises the essential importance of effective leadership, good governance and good financial management for all councils.

As we start to see our way through this pandemic and attention turns to recovery and renewal, the Commission will take time to consider how we can appropriately reflect the changed circumstances in our work.

I hope that you will find this report helpful and we would be glad to receive your feedback on how we might focus our work during the recovery period.



Summary



Key messages

The COVID-19 pandemic brings unprecedented challenges across communities and public services. The effect on the health and wellbeing of our communities, as well as the financial difficulties and increased levels of poverty, will be significant. The impact on the economy, on national finances and on local public services will also be considerable. This report was compiled before the escalation of the pandemic and is an overview of local government in 2019. But its messages remain relevant. The pandemic multiplies the challenges for local government further and so the need to do things differently to meet the needs of communities more efficiently and effectively is even more important.

- 1** Councils are working hard to deliver services to their communities. But the context they are working in is increasingly uncertain and complex. Demographic and social change is creating demand for services, while the strain on budgets continues to intensify. National policy commitments are increasing and the stresses on other public and third sector partners add to the difficulties in delivering services. The cumulative effect of these pressures on councils is beginning to show across service performance and use of financial reserves.
- 2** Scottish Government revenue funding to councils has reduced in real terms over the period 2013/14 to 2020/21 by 3.3 per cent. Since 2017/18 however, it has increased by 3.9 per cent in real terms, to £10.7 billion in 2020/21. This does not include additional funding in response to the COVID-19 pandemic. The strain on budgets is evident as councils continue to dip into their reserves to make ends meet. Medium-term funding levels are uncertain, making continued use of reserves to manage the funding gap unsustainable. Long-term financial planning is not well enough developed in many councils and in integration joint boards. Medium- and long-term financial planning are important tools for making well-informed decisions and to effectively manage continuing financial challenges.
- 3** Alongside the uncertainty of funding levels, the scale and complexity of the challenges for councils and integration joint boards will continue to grow in the coming years. Change is needed in how they serve their communities, so that they are able to respond to the needs and improve outcomes for people into the future, in the most efficient and effective ways. More radical thinking is needed for longer-term solutions. It requires investment of time and capacity by political and management leaders, to analyse the range of challenges for the

area, develop the thinking and planning for the medium and longer-term. This is difficult, in already demanding roles, but this investment is important.

- 4** Councils alone cannot improve outcomes for communities and achieve local priorities. The full potential of collaborative working with partner organisations and communities is not yet being realised. More progress is needed. Councils need to demonstrate strong leadership and collaborate with partners, including integration joint boards, NHS boards, the voluntary and private sectors, and their local communities. This is essential if they are to make best use of local resources, including the workforce, and demonstrate Best Value.
- 5** Workforce planning is fundamental to ensure that councils have the staff, skills and leaders they need to deliver change. Some progress has been made to improve workforce planning, but much more needs to be done. As the workforce ages, councils need to be more flexible and agile in how they deploy staff, work with partners and attract younger people to work in local government and respond to specific skills gaps. This also requires comprehensive workforce data and planning.

Recommendations

To respond to the challenges facing local government and deliver local priorities and improve outcomes for their communities:

Governance - councils and integration joint boards need to:

- invest leadership capacity in analysing the challenges and planning for the future, including:
 - plans for how services will be delivered that reflect the scale of the challenges ahead and will deliver demonstrable improvement in outcomes for communities
 - putting in place and continuing to develop medium- and long-term financial planning that will inform ongoing review and implementation of plans for change.
- monitor and report on delivery of local priorities and outcomes while improving public performance reporting.

Collaboration - councils and integration joint boards need to:

- maximise the potential of collaborative working by:
 - working alongside partners to improve community planning partnerships, so that they have a clearer strategic direction and take a more active role in leading local partnership working
 - engaging with other councils, partners and communities in developing plans to improve and change the way services are delivered.

- increase the opportunity for communities to influence or take control of local decision-making and, demonstrate how communities are supported to help design or deliver local services and improve outcomes.

Capacity and skills - councils and integration joint boards need to:

- develop leadership capacity and workforce planning arrangements including:
 - effective succession planning and capacity development for leadership positions
 - approaches to increase the uptake of learning and development opportunities by councillors, to ensure that they are equipped to respond to the challenging context and their role in planning for the future
 - improving the quality and range of workforce data to give a comprehensive profile of the current organisation-wide workforce
 - using this comprehensive workforce data to:
 - identify and address skills gaps, including those related to lack of capacity or the age profile of staff
 - plan for the skills required to deliver services, both now and in the future, including using skills from the third and private sectors, with a greater focus on collaborative and flexible working
 - prioritising the development of staff across their organisations, to build more resilient teams, focused on improving the lives of local people
 - building a learning culture to learn from experience both within and outside the organisation.


Services - councils and integration joint boards need to:

- consider how the recommendations above relate to each service.
- For planning services this specifically includes:
 - ensuring the role of chief planning officer is positioned to contribute at a strategic level to corporate level discussion and planning
 - developing detailed workforce planning and strategies that will respond to the changing skills needs of the service and consider at a national level how collectively the limited availability of planning professionals can be addressed
 - providing effective leadership to staff for the cultural changes needed to respond to the shift in focus for this service
 - implementing changes to how the service works to improve the level of partnership working and community engagement.

About this report

1. The evidence used in this report was compiled before the escalation of the COVID-19 pandemic. It sets out the Accounts Commission's view before this unprecedented situation began to unfold. It provides an independent overview of the other challenges facing councils in Scotland, how councils are responding to tightening budgets and how this affects the services provided to the communities they serve. As well as informing the public, the report aims to inform local government councillors and senior council officers, to support them in their complex and demanding roles. Although this report does not address the impact that the COVID-19 pandemic will have on local government and its communities, the issues and the messages remain relevant.

2. The report highlights the context councils were operating in prior to the pandemic, with increasing need for services for communities but also with financial pressures and uncertainties. It looks at some of the main tools that contribute to change and how effectively councils are using these to respond to increasing demand and strained budgets. The final section of the report sets out a case study on planning services as an example of how these challenges are affecting an individual service, how that service is responding and the impact on its performance.

3. The report draws on findings from Local government in Scotland: Financial overview 2018/19, published performance data and local government audit work in 2019. This includes **Best Value Assurance Reports**  (BVARs), annual audits and national performance audits. All national and individual council audit reports are available on our website. Where specific examples of council activities or circumstances are referenced, this is not intended to imply that the named councils are the only ones engaging in these activities or experiencing these circumstances.

4. We also draw on a range of sources of evidence for this report. Financial information is taken from the local government financial circulars, the Scottish Government's local financial returns (LFRs), and councils' annual accounts. Performance information is gathered from the Local Government Benchmarking Framework (LGBF) data, the National Performance Framework (NPF) indicators and relevant reports from other scrutiny bodies, such as Education Scotland and the Care Inspectorate.

5. To help councillors, we have produced a supplement to accompany this report. It sets out questions that councillors could ask to help them understand their council's position, scrutinise its performance and make difficult decisions. Councillors should feel that they fully understand, and are satisfied with, the answers to the questions that are most relevant to them in their roles within the council. A tool is also available on our website that provides a further breakdown of data in the report by council area to provide more detail at a local level.

6. To make financial information clear and comparable in the report:

- We refer, in a number of places, to real terms changes, which means that we have adjusted the figures to take account of inflation. Our analysis of local government funding adjusts figures into 2019/20 prices to reflect the current year.



In 2019, we have produced Best Value Assurance Reports about the following councils:

- Highland
- Midlothian
- North Lanarkshire
- Perth and Kinross
- Scottish Borders
- South Lanarkshire
- Stirling

These are all available on the Audit Scotland website.

- We look at historical trends using data from 2013/14 where possible. National police and fire services were established in 2013 and so were not included in local government accounts from 2013/14. It is not always possible to use 2013/14 as some information is only available for more recent years.

The challenges

Councils operate in a challenging and complex landscape



7. It is well recognised that there are significant pressures on local government and its partners. Over the following pages, we illustrate the challenges and complex landscape that contribute to these pressures through a series of infographics. The illustration below gives a high-level breakdown of the main features of the overall landscape, which we explore in more detail on [pages 11 to 23](#).



Political and economic

The political and economic landscape continues to hold uncertainties including:

- The impact of the COVID-19 pandemic on the economy, public finances and public bodies
- The impact of withdrawal from the EU
- The national political landscape: Scottish Parliament elections in 2021 and debate on a second independence referendum
- The outcome of the local governance review
- The impact of Scotland's economic performance on public finances



Community needs

Population changes affect the need for and demands on many services provided by local government

- The impact of the COVID-19 pandemic on communities is uncertain
- The proportion of the population over 75 years is increasing, affecting the demand for some services
- Most council areas are seeing a notable decrease in the proportion of children in their communities
- Poverty and child poverty levels are increasing



Policy

Local government is an important contributor to national outcome priorities

- National policies and initiatives bring additional challenges and pressures eg:
- Health and Social Care Integration
 - Tackling climate change
 - Welfare reform
 - Early learning and childcare expansion
 - Additional support for learning
 - Planning (Scotland) Act 2019



Financial

Local government faces a range of financial challenges

- The level of future Scottish Government funding is uncertain
- The flexibility of how councils can use this funding is reducing
- There are increasing cost pressures including staff costs and increasing need from communities
- Councils have been using reserves to manage funding gaps - this is not sustainable



Political and economic

The political and economic landscape continues to hold uncertainties

There are always uncertainties about change at a national level and the potential impact on communities and local government. But the current landscape involves some particularly significant unknowns. This makes forecasting issues and planning for the medium and longer term more difficult.



COVID-19 Pandemic

The full scale of the impact on the world, UK and Scottish economy of the COVID-19 pandemic is not yet clear. It will be significant and have long-term implications for public sector finances, political priorities and decisions that need to be made at a local level.




Withdrawal from the EU

The impact of withdrawal from the EU on 31 January, on the demographics, workforce and economy remains uncertain

Net migration to Scotland is expected to reduce, in the medium-term, affecting particularly the number of working age adults [already projected to decline] and so this may have a significant impact on communities and local economies

The Scottish Government has produced a Brexit Vulnerabilities Index to assess the degree of risk for each local authority- **rural areas and particularly the island authorities are most vulnerable**

We refer to some of the risks in greater detail in our Briefing Paper [‘Preparing for Withdrawal from the European Union’](#)  in which we also identify some of the mitigating approaches being adopted by councils.



Political landscape

The UK general election in December 2019 delayed budget setting processes

There is increased debate about a second referendum on Scottish independence

The Scottish Parliament elections are planned for spring 2021

The outcome of the local governance review remains uncertain



Economy

The Scottish Government's income is now more dependent on the economic performance of Scotland. This brings potential volatility and uncertainty to its budgets and in turn, this brings more uncertainty about Scottish Government funding to local government

While unemployment rates are low, economic growth is affected by low wage growth, which is struggling to outpace inflation

Demographic changes affect the level of available labour force and this will affect the level of new investment, productivity and the economic wellbeing of communities



Community needs

Population pressures are growing. These changes affect the need for and demands on services provided by local government

Nationally the population continues to grow, there is an increasing proportion of the population over 75 years old and there are increasing levels of poverty. The demographic and social challenges vary across the 32 council areas bringing different pressures and challenges for councils and integration joint boards as they plan for how they will improve outcomes for their communities. The financial, social and health wellbeing of communities and individuals will be affected by the COVID-19 pandemic. This will bring increased demands on services.



The population continues to grow but the pace is slowing

Scotland's population is expected to continue to increase, but the rate of growth is slowing. The population is projected to **rise by 2.5 per cent by 2043**, to a total population of 5.6 million

The level of population **change varies across the country** and this brings different challenges for councils that they need to plan for

Some council areas are experiencing significant increases in population levels. This puts **pressure on services to meet the growing need**

Some council areas have reducing population numbers. This brings challenges in providing cost-effective services for fewer people and with less funding, as Scottish Government funding distribution is largely based on population levels



The proportion of the population over 65 years is increasing

In 2019, 10.6 per cent of the population was **65–74 years** old. This is **projected to increase by 23 per cent** by 2043. Almost two thirds of council areas are projected to have a decreasing number of people of working age. Nationally a reduction of 0.2 per cent by 2043



The current age profile of the workforce is affected with an increasing number of staff approaching retirement and the pool of working age people to employ is a smaller proportion of the population. Workforce planning is increasingly important

The proportion of the **population over 75 years old is projected to increase by 71 per cent** by 2043. This places greater pressure on health and social care as some people in this age group have more complex needs. Across all age groups, increasing levels of complex needs brings additional pressures on services

This is particularly challenging for some rural councils, with a high proportion of people aged 65 and over and relatively low levels of their populations aged 16 to 64. e.g. Highland Council: 41 per cent of the council's workforce is over 50. Only ten per cent of its workforce is under 30, and less than one per cent aged 20 or under

The proportion of those aged 65 or over with long term care needs receiving personal care at home has increased from 60 per cent in 2013/14 to 61 per cent in 2018/19.

Since 2013/14, there has been a real-terms increase of 12.3 per cent in cost per hour on home care for people over 65. The total gross expenditure has increased by 13.7 per cent and the number of hours delivered has increased by 1.3 per cent

The proportion of children in the population is decreasing

Projections for 2043 show that **only 4 council areas will have an increase in their child populations**, of between 20 per cent in Midlothian to one per cent in Stirling.



This brings increased demands on many services in terms of responding to the infrastructure, education and social care needs of children. In Midlothian, there is a higher proportion of young people in the population than the average and significantly higher projected increases in the under-16s. This impacts on for example the costs of developing and staffing new schools and in delivering social care services

28 councils are projected to have a reduced child population by 2043. Reductions vary between one per cent in East Lothian to 28 per cent in Argyll and Bute. This brings challenges in terms of maintaining the standard of service for fewer children with less budget and economies of scale. This is particularly challenging in remote rural environments, where loss of services for children can affect the sustainability of communities



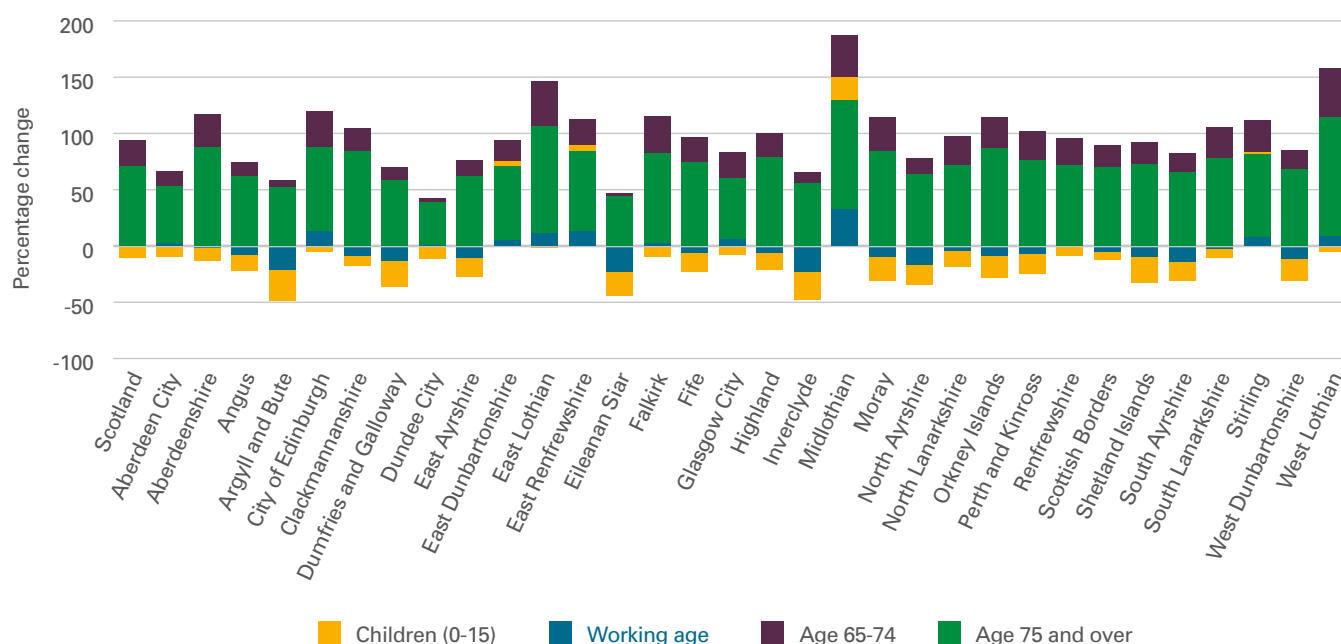
Population change at local authority level, 2018–43

Across the country, the population over 65 years and over 75 years is expected to continue to increase, whereas changes in the population of working age adults are expected to be more variable.

- Midlothian, East Lothian and West Lothian are forecast to have the highest increases across both older age groups.
- The majority of councils (28) are projected to have decreasing numbers of children, with a reduction of 10.5 per cent across Scotland. Reductions are significant in some councils, with Argyll and Bute having the highest forecast reduction of 28.4 per cent by 2043.
- Aberdeenshire, Clackmannanshire, Highland, Shetland Islands, Orkney Islands, Fife, North Lanarkshire, South Lanarkshire, Moray and Perth and Kinross, all have projected above average increases (average increase is 70.6 per cent) in the older adult (75 years and over) population, in addition to reduced working age populations, and falling numbers of children.
- Inverclyde and Eileanan Siar are expected to see the largest reduction in their overall populations (-16 per cent by 2043). For Inverclyde this is most significant for its child population, while the reduction in the working-age population will be the most significant in Eileanan Siar.

Exhibit 1

Projected change in population across council areas by age groups, 2018-43



Note. Change is based on a percentage change.





Poverty levels are rising

Increased levels of poverty affect the level of need and demand for many services

Between 2011-14 and 2016-19, relative poverty in Scotland increased from 18 per cent to 19 per cent

Growth in life expectancy has stalled. This is more prominent in areas with greater deprivation

In 2018/19, there was a four per cent increase in households in temporary accommodation as well as a six per cent increase in children living in temporary accommodation

Between 2011-14 and 2016-19, relative poverty for children in Scotland increased from 21 per cent to 24 per cent. Analysis by the Scottish Government indicates that this could rise to just under 38 per cent by 2030

Between 2011-14 and 2016-19, the level of pensioners in poverty has increased from 12 per cent to 15 per cent. People in relative poverty in households with at least one adult in employment has increased from 47 per cent to 53 per cent

Levels of inequality and the challenges vary across council areas, for example:

Glasgow is one of the 14 council areas with a growing population. It is one of the councils worst affected by high levels of deprivation, child poverty and homelessness. This puts it under significant pressure to respond to the growing need for services. Glasgow also has the lowest life expectancy in Scotland. At birth, life expectancy for men in Glasgow is 73.4 years, and is 78.7 years for women. In contrast, East Renfrewshire has the highest life expectancy of 80.7 years for men and 83.6 years for women.

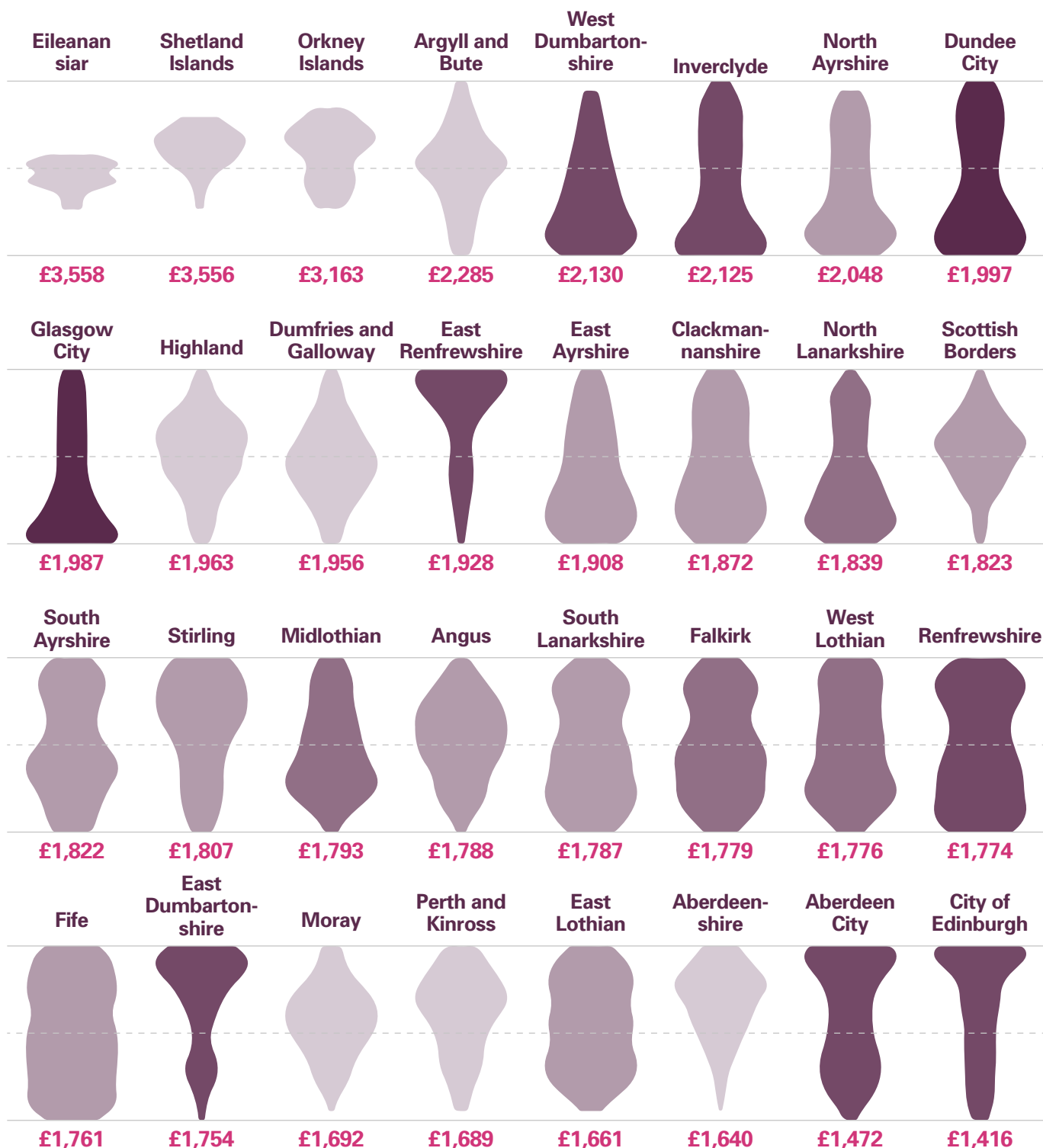
Inverclyde and North Ayrshire, among others, are expected to have a reduction in their populations, with fewer working-age adults, but they also have high levels of deprivation, child poverty and lower life-expectancy. The distribution of Scottish Government funding is largely determined by population levels. Councils with low or declining populations and with a complex local context, including deprivation levels, need to plan to respond to increasing pressures with less funding.

Island authorities, namely Eilean Siar, Orkney Islands and Shetland Islands, receive the most funding per head from the Scottish Government. This is due to the cost of delivering services in island settings, which is more complex. Other issues such as providing effective infrastructure are a key challenge. Deprivation is also an issue that island and rural authorities must respond to, however because the populations are so sparse, deprivation is not as easily identified using SIMD. Rural and island council areas have significant areas where rural poverty is an issue. The communities are often affected to a greater extent by issues such as fuel poverty.

[Exhibit 2](#) illustrates the range of deprivation levels across the 32 councils using Scottish Index of Multiple Deprivation (SIMD) data 2020. SIMD is the official tool for identifying the most deprived areas in Scotland. It looks at multiple aspects of deprivation such as resources and opportunities as well as low income. The shape indicates the proportion of the population in the least and most deprived areas. The darker shades indicate the most urban areas and the lighter the most rural. The councils are ordered by the level of Scottish Government funding per head of population.

Exhibit 2

Deprivation levels, rurality and funding per head of population



Population in the deprived areas



Rurality:



Core funding per head



Source: Scottish Government Financial circular February 2020, Open Data Manchester using Scottish Index of Multiple Deprivation (SIMD), 2020. SIMD is a relative measure of deprivation across small areas known as data zones. It looks at the extent to which an area is deprived across multiple factors including income, employment, education, access to services, health, housing and crime.



Policy

Implementing national policies and initiatives brings further challenges

Local government is a major contributor to a wide range of national policy priorities and initiatives. Councils, and integration joint boards, need to balance responding to these with local priorities. Responding to national and local priorities, with increasing demographic pressures and strained budgets is beginning to show in performance.

National Performance Framework

The Scottish Government and COSLA co-signed a refreshed National Performance Framework (NPF) in 2018



- Local government is a major contributor to the range of outcomes the NPF aims to improve.
- Having a positive impact on these outcomes will be challenging:
 - LGBF measures show performance has either stalled or declined in the past year - [Exhibit 3](#)
 - National Performance Framework indicators show a mixed picture of progress - [Exhibit 4](#)

Exhibit 3

Performance – Local Government Benchmarking Framework data

Since 2013/14, performance has broadly shown improvement. However, the pressure is beginning to show. Over the last year many performance indicators have been maintained or declined.



Adult social care

Since 2013/14 progress in adult care indicators has been mixed, with around half of indicators gradually improving. However, in the past year progress for these measures has slowed or showed a decline. There has been a 4.1 per cent increase in the number of days people spend in hospital when they are ready to be discharged in the past year, despite an overall reduction of 14 per cent since 2013/14. Measures show a declining trend in the level of satisfaction. Indicators for adult care quality have seen a decline in the last year, there has been a three percentage-point decrease in the proportion of care services graded 'good' or better in Care Inspectorate inspections.



Education and children

Most indicators have improved since 2013/14 but improvement over the past year has slowed and some indicators have declined, including some educational attainment and early years indicators. The cost per pupil in pre-school, primary and secondary education has increased. The attainment gap between children living in the most and least deprived areas has reduced slightly.



Environmental

Many cost indicators show reductions in cost since 2013/14, but performance in many areas has also declined. Recycling levels have improved since 2013/14 but this has stalled in the last year. Satisfaction with street cleaning and waste collection has also reduced.



Economic development

There are mixed trends, with improvement in half of the indicators since 2013/14. This includes an improvement in access to superfast broadband and an increase in the proportion of money spent on procuring goods and services locally. There was a slight increase in the proportion of unemployed people assisted into work, but this declined in 2018/19, meaning that overall progress since 2013/14 has been unchanged. Performance has declined in other indicators, such as the number of business gateway start-ups.



Culture and leisure

Costs for these services have reduced and the number of attendances has increased, however satisfaction has declined across all services.



Housing

Some indicators have improved since 2013/14 but this has stalled in the past year. The proportion of housing meeting Scottish housing quality standards has continued to improve to over 94 per cent in 2018/19. Gross rent arrears have worsened year on year since 2013/14.



Corporate

Most corporate indicators have improved or been maintained, but sickness absence for both teachers and other staff has worsened in the past year.

Note. The LGBF performance information for 2018/19 is summarised in a report National Benchmarking Overview Report 2018-19 and a tool to analyse the data by council and by service area is available on the Improvement Service's website.

Source: Local Government Benchmarking Framework data, 2018/19, published March 2020

Exhibit 4

Performance - National Performance Framework measures

There is a mixed picture of progress against measures of national outcome priorities. A sample of NPF indicators are illustrated below.






		2013	Change	2018
Health				
	Health risk behaviours: Percentage of adults with two or more health risk behaviours (current smoker, harmful drinking, low physical activity, obesity)	28%	▲ +1	29%
	Journeys by active travel: The proportion of short journeys less than 2 miles that are made by walking	47.3%	▼ -4.3	43%
	Journeys by active travel: The proportion of short journeys less than 5 miles that are made by cycling	1.2%	▲ +0.6	1.8%
Education				
	Quality of child care: Percentage of settings providing funded Early Learning and Childcare achieving good or better across all themes	91.6%	▼ -1	90.6%
	Young people's participation: Percentage of young adults (16-19 year olds) participating in education, training or employment	90.4%*	▲ +1.4	91.8%
Employment				
	Living wage: Percentage of workers earning less than the living wage	18.3%	▲ +1.1	19.4%
	Gender pay gap: The difference between male and female full-time earnings, as a percentage of full-time hourly earnings	7.7%	▼ -2.1	5.6%
Environment				
	Energy from renewable sources: Percentage of energy consumption which is renewable energy	12.7%	▲ +8.2	20.9%
	Household waste: The amount of household waste generated in million tonnes	2.4	— 0	2.4
	Wellbeing: Proportion of adults making one or more visits to the outdoors per week	46.2%	▲ +12.7	58.9%

Exhibit 4 continued

	Community views	2013	Change	2018
	Social capital index: A measure of the social networks, community cohesion, social participation, trust and empowerment, that collectively provide an important part of personal and social wellbeing	100	▼ -5	95
	Perception of local area: Percentage of adults who rate their neighbourhood as a very good place to live	55%	▲ +2.4	57.4%
	Satisfaction with public services: Percentage of respondents who are fairly or very satisfied with the quality of local services (local health services, local schools and public transport)	59.9%	▼ -8.2	51.7%
	Influence over local decisions: Percentage of adults who agree that they can influence decisions which affect their local area	22%	▼ -1.9	20.1%
	Satisfaction with housing: The percentage of households satisfied with their house or flat	90%	— 0	90%

Note.*The baseline year for this indicator is 2016, when the data was first measured.

Source: Audit Scotland, Scottish Government NPF data, January 2020





Policy



Fairer Scotland Duty

The duty took effect in April 2018. It requires public bodies to **actively consider how they can reduce inequalities.** Our audit findings show that councils need to embed a focus on fairness and equality.

In 2018, The Equality and Human Rights Commission reported that progress with promoting socio-economic equalities, before the duty was implemented, had varied across public bodies. It also identified that most public bodies are concerned about the resources needed to implement the duty in their plans and policies.

Health and social care integration

Health and social care integration began in 2016. Joining up council social care and NHS health services aims to deliver better services for communities

The pace of progress with integration has been too slow.

Adapting to new ways of working continues to be challenging.

There is deterioration in key performance indicators, indicative of the strain felt by integration authorities:



- The 'Rate of readmission to hospital within 28 days per 1,000 discharges' has increased by 8 per cent since 2013/14, and over the past year there has not been any change
- Since 2013/14 there has been a 14 per cent reduction in the 'Number of days people spend in hospital when they are ready to be discharged, per 1,000 population (75+)', but a 4 per cent increase in the last year.

Other major policies and initiatives

Climate change -

Scottish Government has set a target of net-zero emissions by 2045

Tackling child poverty -

Scottish Government has set income targets for 2023 and 2030 but current child poverty levels are high

Early learning and child care -

ambitious targets set for increasing the funded hours provided (deferred due to the COVID-19 pandemic)

Additional support for learning -

meeting the individual support needs for children is challenging with current resources

Welfare reform -

rollout of Universal Credit brings changes to systems and increased demand on advice services

Planning (Scotland) Act 2019 -

new focus on 'place' based planning with partner and community engagement



Financial

Local Government faces a range of financial challenges

The demands on services to deliver more to meet community need is magnified by other pressures on budgets. The COVID-19 pandemic will bring further demands on local government services and budgets. Scottish Government funding is the main source of funding for local government. The level of this funding in the medium-term is uncertain. The flexibility in how funding is used is reducing. This affects which, and how much different services need to find savings. The workforce is local government's most important resource, but staff costs are increasing, adding further pressure.



Scottish Government funding

2020/21 revenue funding increased by 1.5 per cent (real terms) from the previous year to £10.7 billion

Since 2013/14 it has reduced by 3.3 per cent (in real terms)

These figures do not include additional funding identified since April 2020

Councils have less flexibility in how they use funding.

Funding dedicated to national policy initiatives, increased from £1 billion in 2019/20 to £1.5 billion in 2020/21, equating to 14.1 per cent of council funding from the Scottish Government.

The funding levels for the medium-term are uncertain. Funding settlements do not yet provide information for more than one year. The Scottish Government has committed to moving to multi-year indicative budgets in the future



Increasing cost pressures

Local government needs to respond to increasing service needs from communities with changes in population



The cost of caring for looked-after children in both residential and community settings has continued to grow since 2013/14, by 5 per cent and 17 per cent respectively

Spending on home care for older people has risen by 13.7 per cent since 2013/14, and by 1.9 per cent in the last year, but the number of hours of home care provided has only increased by 1.3 per cent since 2013/14

Increasing staff costs, including meeting the national living wage, are a significant pressure on budgets



For example, North Lanarkshire Council has partly attributed its high cost of adult care to commitments in paying the national living wage
19 councils including North Lanarkshire are accredited Scottish Living Wage employers, which pay a higher rate than the national living wage
The national living wage increased by 21 per cent between 2016/17 and 2020/21



Managing the funding gap

With increasing cost pressures, meeting the funding gap continues to present significant challenge for councils

Councils have been using reserves to manage funding gaps



The funding gap for 2019/20 is £0.5 billion, three per cent of revenue income

In 2018/19 16 councils ended the year with a lower level of reserves than the end of the previous year. This is not sustainable in the long-term

In 2020/21, the Scottish Government expects a council tax increase of up to 4.84 per cent

20 councils are increasing council tax by this proportion

The highest council tax in Scotland for 2020/21 (D Band) is Midlothian at £1,409 and the lowest is South Lanarkshire at £1,203

Councils are seeking other ways to increase income. Most are increasing fees and charges for some services. Some councils are seeking to introduce a visitor levy



Spending

Spending on education continues to rise, while spend in most other service areas is falling

With increasing need from population changes, statutory and policy requirements, over two thirds of council spending is on education and social care.



Education, Social work and Environmental services

**% change
cash**

**% change
real terms**

Education, Social work and Environmental services increased net expenditure from 2013/14 to 2018/19.

Adjusted for inflation (in real terms), spending on Education and Social work increased and decreased by only 1.5 per cent respectively. In real terms, Environmental services spent over five per cent less in 2018/19 than in 2013/14

Education

10.4

1.5

Social work

7.1

-1.5

Environmental services

2.9

-5.4



Other services areas

**% change
cash**

**% change
real terms**

Other service areas have borne higher levels of savings in cash and real terms. For example, planning services, roads and transport, and culture and related services.

Cultural and related services

-6.2

-13.9

Roads and transport

-18.2

-24.8

Planning and development services

-27.7

-33.5

Central services

-27.4

-33.3

Non-HRA housing

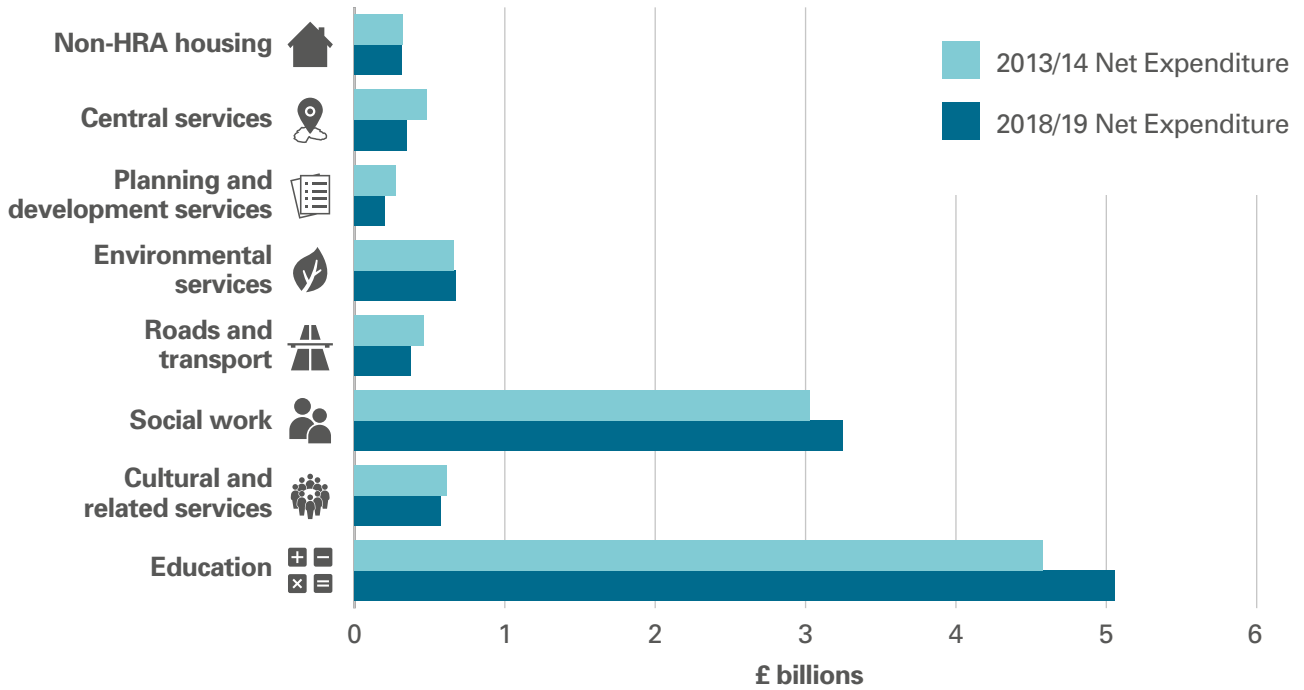
-1.9

-9.9

Exhibit 5

Local government service expenditure

A comparison of net revenue expenditure between 2013/14 and 2018/19 (cash terms)



Source: Audit Scotland using Scottish Government local financial returns 2013/14 – 2018/19



Doing things differently

To meet the needs of communities into the future



Councils need to plan and implement changes that will allow them to meet the needs and improve the outcomes for their communities, in an increasingly challenging context. There are core aspects that need to be considered by political and management leaders to make good progress with this.



Leadership



Change and improvement



Workforce planning



Partnership working




Community empowerment and engagement

Councils need to invest time and the right skills and capacity to plan for the future

8. Local government in Scotland has done well over recent years to respond to its context and find ways to be more efficient. It has continued to provide services with gradually reducing levels of funding and increasing pressures on its services. However, the challenges are growing, and the strain is beginning to show in terms of managing the funding gap, maintaining service performance levels and meeting their communities' needs. To provide for their communities in coming years, councils and integration joint boards (IJBs) need to be open to doing things differently. It is complex with many interacting factors and stakeholders and it takes time to plan, implement and establish changes. It is important that councils recognise the increasing urgency to invest the time, knowledge and skills to plan, develop and put into practice efficient and effective new ways of working for the future. This will often mean re-prioritising the time of key managers and leaders within the organisation to free-up the right capacity to lead this important work.

9. The Commission recognises the challenges, complexities and the uncertainties that local government faces. It encourages councils and IJBs to build on progress made in recent years but recognises that now more radical change is required. Recent Commission reports looking at local government in Scotland have emphasised the importance of:


- developing leaders, staff, and skills to deliver change. This requires effective leadership and workforce planning that is clear about the workforce needs now and in the future, where the gaps are and what training or other action is needed to fill them.
- improving services' efficiency and performance through transformation and redesigning services around the needs of the people who use them.
- collaborating with partners, the third sector (such as charities) and communities to think differently about how to deliver and fund services and to continue to seek and implement innovative ways of working.
- undertaking medium- and long-term financial planning to deliver national policy commitments while continuing to sustain local services with reducing budgets and increasing demands.

10. These recommendations are becoming increasingly urgent. In this section of the overview we set out progress against these and other important contributing factors to effective change, which reflect some of the core characteristics of Best Value. The **statutory guidance for Best Value**  provides a framework that councils and IJBs should have regard for, in planning and implementing change, as well as for broader good governance.

Leadership

Effective leadership is even more critical at a time of increasing pressures and change

11. Good leadership is fundamental to good governance and in setting and delivering priorities for communities. In a time of increasing pressure on services and finances, this becomes even more critical. To do things differently in substantive ways takes time and requires a clear vision and strong leadership to make it happen. Both political and managerial leaders need to have the strategic vision to make the difficult decisions this might involve. They also need to have the leadership skills to engage effectively with and provide support to staff, partners and communities to navigate change.

12. In the *Local Government in Scotland: challenges and performance 2019 report* , the Commission emphasised that effectively led councils recognise that the financial and demand pressures mean that planning and implementing changes to find efficiencies alone is no longer enough, and that redesigning service delivery is needed. Council leaders differ in their recognition of the need for more radical change and their role in driving this. For example, we reported this year:

- Clackmannanshire - The council's financial position has improved but remains very challenging. The council recognises that its finances are not sustainable in the longer term without transformation. It cannot continue to avoid or defer difficult decisions about services.
- Scottish Borders - The council recognises the degree of change needed to meet its challenges. Making progress will require good leadership by councillors and the corporate management team.
- Midlothian - Councillors need to show better leadership to deliver the necessary change and to make difficult decisions about the future shape of services. Councillors need to work together urgently to agree the medium-




Best Value is a statutory duty for local government bodies. The requirements include among others:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); in securing that balance, have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development
- to make arrangements for the reporting to the public of the outcome of the performance of functions.

The refreshed statutory **Best Value guidance**  is available on the Scottish Government website.

term financial strategy and transformation programme required to address the council's challenges.

- Highland - Difficult decisions lie ahead for the council, requiring effective leadership. We therefore urge councillors to continue to work constructively together with council officers and communities.

13. Good working relationships  between councillors and officers, and across political divides, is a significant contributing factor to effective strategic leadership, clear direction and to supporting effective change and improvement. Through our Best Value work we have seen that weaker relationships affect the focus and pace of progress in delivering change. To make the significant changes required, it is even more important that councillors develop and maintain positive relationships with officers and each other and work together to deliver sustainable services.

Changes in officer leadership need to be managed effectively


14. Since August 2018, almost one third of councils have experienced a change of chief executive. This high turnover is also reflected in IJBs, with over one-third of senior IJB staff having changed in 2018/19.

15. Changes in leadership have been managed well and had a positive impact in some councils, for example in North Lanarkshire and in Perth and Kinross. In other councils, changes in the senior leadership team have resulted in a loss of knowledge and experience (or 'corporate memory') and of momentum. For example, this has been observed in Stirling and Highland councils. This highlights the importance of appropriate succession planning arrangements and building skills and capacity in management teams to support continuity of leadership and direction when senior staff leave.

16. Effective leadership development is essential to ensure that change is well managed at the right level and pace. The availability, capacity and depth of leadership skills across the public sector is an increasingly important issue. Organisations are competing not only with each other for the best quality leaders but also with the private and third sectors. Chief officer posts across councils and IJBs need to be attractive. The Commission recognises that this is a complex and difficult issue given the context and scale of the challenges for chief officers of both councils and IJBs. Reflecting its importance, leadership, including the turnover in senior staff and the effectiveness of succession planning, is of specific interest to the Commission and an issue it plans to focus on in the future.

Councillors need to ensure they have the skills and knowledge to provide a high standard of scrutiny and decision-making

17. The uptake of training and development by councillors remains variable and affects the ability of elected members to make difficult and complex decisions.

18. Effective leadership and decision-making require councillors to understand their roles and responsibilities at a strategic level, alongside being local representatives. They need to be well informed about the complex and changing landscape of national and local issues. To support this, councillors need to have access to good-quality **training and development**  opportunities and they need to take ownership and responsibility for their own development needs.

19. It is disappointing that the quality and uptake of training and development opportunities by councillors continues to be variable. We have highlighted the



The Commission has previously reported on the importance of constructive working relationships - How councils work, in 2010: [Roles and working relationships - are you getting it right?](#) and 2016: [Roles and working relationships in councils - Are you still getting it right?](#)



Am I aware what succession planning and leadership development arrangements are in place for the corporate management team?

Am I satisfied that these are appropriate?



There are many resources available for councillor training and development, including a range of tools and support from COSLA and the Improvement Service



Do I know what issues I need to develop my knowledge or understanding of?


How do I plan to get the appropriate training?

importance of this in Best Value reports for many years. Officers need to ensure that councillors have access to informative, practical and up-to-date training on key and emerging issues. Councils also need to continue to find ways to promote and encourage engagement, for example, by widening the availability of training and, by making relevant materials accessible online to allow greater flexibility and increase uptake.

20. Personal development plans are a valuable tool for tailoring training to councillors' individual needs. Some councils, such as Perth and Kinross, have systematic arrangements in place to support personal development plans for councillors. The Commission urges all councillors to ensure that they have a personal development plan in place that supports them to be as effective as possible in their role.

21. Inadequate quality of training can have significant implications for councillors' understanding of issues. For example, in Midlothian Council, we reported this year that councillors were not always able to understand financial information that was provided to them. This has implications for the effectiveness of decision-making. All councillors and councils need to be proactive and systematic in identifying training needs and putting options in place to meet them.

Medium- and longer-term financial planning still needs to improve to provide a framework for implementing change

22. The need to find and deliver savings is expected to continue, increasing the importance of medium- and long-term planning to manage these financial challenges and to make well-informed decisions aligned with council priorities. Previous Commission reports have recommended that councils should plan for a range of scenarios, so that they are prepared for different **future levels of funding**  and income.

23. The Commission has previously highlighted in its overview reports the importance of good medium- and long-term financial planning as a fundamental tool to support councillors and officers to make well-considered decisions and effectively manage the continuing challenges and pressures. In the [*Local government in Scotland: Financial Overview 2018/19*](#) , we reported that all councils now have medium-term financial planning covering three years or more, but long-term financial planning has not improved since last year. The report also highlighted that in IJBs, medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years.

24. Councils and IJBs need to continue to improve their approaches to medium- and long-term financial planning. Financial plans should be at the core of strategic planning and decision-making. They should be reviewed and refreshed annually, ensuring that the information is current and accurate. Financial planning should include:

- estimates of Scottish Government funding
- projections of corporate and service level income
- projections of corporate and service level expenditure
- projections of the costs of borrowing.



Do I have access to training and learning materials that meet my needs?

Do I have a personal development plan in place for training, learning and development, that will assist me to be as effective as possible in my role?



Scottish Government funding to councils is likely to reduce in the medium term. The Scottish Government's five-year strategy sets out its spending priorities. Services not identified as priorities will be disproportionately affected by any reductions to the Scottish budget. These services could face between one and 16 per cent real terms reduction to their budgets.



In addition, the Scottish Government forecasts it may need to budget for a revenue shortfall of £1 billion over three years.

25. Accurate and detailed information on factors such as these will assist councillors and officers to make informed decisions about changes in service design and delivery.



Change and improvement

Most councils have a change programme in place, but more radical thinking is needed for longer-term solutions

26. The Commission emphasised in its *Local Government in Scotland: challenges and performance 2019 report* , the increasing urgency for councils to be open to fundamental changes in how they deliver services. There is limited evidence that councils are changing the way they deliver services to the extent that is needed to respond to the forecast financial challenges, increasing pressure on services and to improve outcomes for communities. Most councils have continued to **respond to tightening budgets**  through efficiency savings, some restructuring and using financial reserves. While substantial savings have been made in recent years, more fundamental changes in the way council services are organised and delivered are needed. Using reserves to manage funding gaps is not sustainable.

27. Councils' approaches to making changes vary. Some councils include service re-design as part of existing operational and improvement activities, whereas most councils have a formal change programme in place. This is often branded as a transformation programme, which sets out a range of change objectives, accompanied by strategies to achieve them and specified timescales for when they will be delivered. However, many councils following this approach are still at the beginning of their programmes or have recently refreshed them. Our 2019/20 Best Value audits found some positive examples of partnership working to redesign services:

- Midlothian Council - more than 16 organisations from the Community Planning Partnership and the third sector are working on a project to redesign mental health and wellbeing support services.
- Stirling Council worked in partnership with NHS Forth Valley and the Scottish Ambulance Service to create Stirling Health and Care Village which opened in January 2019.

28. Delivering services differently should be focused on improving outcomes in ways that are affordable. The aim is to find more efficient and effective ways to improve outcomes for communities and, their experiences of services. This might mean providing services very differently or changing how and what services are provided. In planning change, a council should be clear about the objectives and how they link to its vision, priorities and local plans, as well as about its duty to demonstrate Best Value. This requires investing the time and knowledge of political and managerial leaders and key staff to develop the thinking and plans for a medium- and long-term strategy.

29. The *Scottish Approach to Service Design*  (SAAtSD) provides a set of key principles to follow in designing services. It was developed by the Scottish Government in response to the 2011 Christie Commission recommendations on empowering individuals and communities by involving them directly in designing the public services they use. The SAAtSD was updated and published in June



How effectively do the council's medium- and long-term financial plans reflect the population projections for my area and the resulting need for services and infrastructure?



The Local Government in Scotland: Financial overview 2018/19

sets out how councils responded to tightening budgets in 2018/19 and their plans for 2019/20.

Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent of income).

Councils planned to meet 66 per cent of this through savings and 13 per cent through reserves.

In 2018/19 councils did not meet their savings targets and they used more reserves than planned.

2019. It sets out key considerations for service redesign that aim to explore problems openly and collaboratively, before finding and designing a solution in a way that removes organisational and sector boundaries. Key features of the approach include:

- identifying ways to design services around the key challenges, rather than around the structure of the public sector
- increasing collaboration with local people to better understand local issues and, in doing so, identify sustainable solutions
- increasing levels of innovative thinking, combined with effective management of risk.

The SAAtSD challenges council and other public sector leaders to rethink how they plan and design services and to be bold by creating the right conditions for this approach to service design.

Digital approaches continue to develop

30. In developing more innovative approaches for delivering services to communities, digitisation is an important part of service redesign. Increasingly the public expect councils to keep pace with technological change and to be able to access services at a time and place that suits them. Using digital approaches can increase productivity, reduce costs and improve outcomes for citizens.

31. All 32 councils now work in partnership with the Digital Office (DO) for Scottish local government. The DO is working to build councils' digital capacity and use of tools including the SAAtSD approaches in Scottish local authorities, with a core focus on helping to improve services for the public.

32. Progress in digitally based service redesign has been varied across councils. For example, Perth and Kinross Council is progressing well with providing online access to services. The council now offers 37 services online via MyPKC, its customer services platform. The council procured the underlying software collaboratively with Dundee City Council and Angus Council.

33. Stirling Council has also made progress in developing its 'Digital District', as part of the **City Region Deal** . This focuses on inclusive economic growth, by providing business start-up and scale-up support services for digital technology in local companies.

34. Although there is some progress in digital advances, such as mobile working and new digital platforms for interaction with the public, there is still a long way to go in using digital approaches to find ways to improve services and outcomes for communities. In last year's report, the Commission highlighted that councils should be aware of:

- **Procurement** - implementing digital projects is likely to require significant spending. North Lanarkshire's transformation programme is centred on the 'Digital NL' programme, aimed at simplifying and joining up services. This required investing in a digital partner with a maximum contract value of £6.4 million over six years.
- **Skills** - digitally-designed projects need to be led and managed by experienced staff with the appropriate skills. There is a shortage of digital



How clear are my council's plans for the changes needed so that outcomes for communities are improved alongside managing the financial and demand pressures?



City Region and Growth Deals are long-term agreements between the Scottish Government, the UK Government and councils to improve regional economies

skills in councils and they are competing for these skills with other public and private sector organisations.

- **Digital exclusion** - in Scotland, 87 per cent of households now have access to the internet.¹ Councils need to make sure that they still meet the needs of those without access to digital technology when developing new approaches. Residents from rural areas, the elderly, individuals living in poverty and individuals affected by disability, are more likely to be disproportionately affected by digital exclusion.

We will assess and report in more detail on the progress with digital approaches in local government and the challenges this brings, later this year.

Performance information, review and self-evaluation need to be used more systematically to inform improvement

35. Performance management systems and performance information, review, and self-evaluation tools (such as the European Foundation for Quality Management's Excellence Model, Public Service Improvement Framework and How good is my council) are fundamental tools to support improvement. However, these are not being used systematically by all councils.

36. Despite councils having outcomes-based strategic objectives and priorities, some councils remain limited in their ability to show if and how these outcomes are being achieved due to weaknesses in performance management arrangements.

37. Effective performance management systems and performance information are the most basic but essential tools for improvement work. Good data and information about performance are necessary for corporate and service level improvement activity, for understanding performance over time and how it compares with other councils, and to inform decisions about where services need to change.

38. How councils use performance information to drive improvement varies. For example, Midlothian Council makes good use of data to understand and improve its performance, while Scottish Borders and Stirling councils have service-level performance management arrangements but lack a council-wide focus. Highland Council needs to improve its performance management systems and is in the early stages of addressing this.

39. Corporate-level, service-level or thematic reviews are well-established improvement approaches and are used to some degree by all councils. For example:

- Midlothian and Perth and Kinross councils demonstrate good use of service-level reviews but lack a corporate approach
- Stirling Council's approach was found to be poorly structured and inconsistent
- South Lanarkshire Council uses an ongoing risk-based approach of structured self-assessments to review and redesign services with a focus on fundamental change. This review programme has improved service delivery and made some financial savings.



How do I know my council is delivering on the outcomes it has committed to achieve for local communities?



Do I receive clear, timely and sufficiently detailed performance information to effectively scrutinise service and corporate performance?

40. Self-evaluation at a corporate or service level can support change and improvement by using a structured approach to consider where there are strengths and weaknesses and areas for improvement. It is used by many councils but with different levels of success. For example:

- North Lanarkshire Council has a good approach to self-evaluation but needs to ensure that the actions arising from this are clear and measurable.
- Highland Council has developed self-evaluation arrangements but needs to ensure that these are used consistently across services.
- Midlothian Council's arrangements lack a structured corporate approach.



Workforce planning

There is some progress in improving workforce planning, but more still needs to be done to link workforce requirements to change plans, to ensure that councils have the staff, skills and leaders they need to deliver change.

41. Councils across Scotland employ around 252,000 staff (205,000 full time equivalent (FTE))². To find efficiency savings over recent years, councils have restructured teams and departments, and made savings by reducing posts and not filling vacant posts. The workforce reduced by around 6,000 FTE staff from 204,000 FTE in 2013 to 198,000 FTE in 2016. A significant increase in 2019 largely reflects a 29 per cent increase in Glasgow's workforce (FTE) in the last quarter of 2018, compared with the same period in 2016, with posts from an arm's length provider, Cordia, being brought back into the council.

42. Changes in workforce numbers vary between councils. Between 2013 and 2019, the changes in FTE staff numbers were as high as a 14 per cent reduction in Angus, and 10 per cent in Argyll and Bute.³ Some councils' FTE staffing did not change overall during this period. From year to year, the pattern varies between councils. Between 2018 and 2019, 19 councils increased their FTE staff numbers, four councils reduced their staffing and nine councils remained at the same level.

43. Having the right number of staff, with the right skills, in the right posts, is a basic requirement for delivering services. Good workforce planning that is linked to strategic plans and priorities is key to making informed decisions about changes to the workforce. In last year's report, the Commission highlighted that the quality of workforce planning is inconsistent across councils and workforce data is insufficient to clearly understand how individual service areas are affected by changes in the workforce such as the age profile and skills gaps. The extent to which councils provide adequate learning and development opportunities for officers is not known. More needs to be done to improve the quality and range of workforce data to inform workforce planning.

44. The need for councils to deliver services differently and more efficiently should be reflected in workforce decisions. Effective workforce planning is essential to ensuring that councils have flexibility, agility and efficiency in how they use the workforce and can deliver the level of change that is required. It is expected that councils will adopt a comprehensive approach to workforce planning. This should include planning at corporate and service levels and an assessment of current and future workforce capacity and skills, and of how



Is my council systematically using self-evaluation approaches corporately and in services to inform improvement?

How involved or informed am I of the results and monitoring of improvement plans?



Do we have detailed corporate and service level workforce planning?

How clearly do they set out the current and future staff capacity and skills required and how this will be managed?

How am I involved in scrutinising the effectiveness of workforce planning?

Do I know how the council is addressing any specific issues with the workforce age profile or skills gaps in services?

councils will achieve their required workforce profile. These should be reviewed regularly and reflect changing workforce needs.

45. Progress in developing corporate and service level workforce planning is mixed but showing some progress. Some councils have corporate workforce planning in place, while others have service level planning, without integrating these at a corporate level. The level and spread of detail within council workforce plans also varies, with some focused on an assessment of the current skills and employee numbers but lacking an assessment of the council's future workforce needs or setting out plans for how to meet those needs.

46. There are examples where workforce planning is more developed in some councils. For example, South Lanarkshire demonstrates a comprehensive and coordinated approach to workforce planning. It includes many key elements needed for successful service redesign; for example, a profile of the current workforce has been carried out to support succession planning. West Dunbartonshire's approach includes assumptions about the future context and how it will address potential skills gaps in its workforce.

47. Common skills that councils identify as gaps include professional skills such as planners, change, project and programme management, and digital and data management. These are all essential skills that councils need to implement their change programmes effectively and it is often difficult to recruit and retain staff with these.

48. Councils have adopted a variety of initiatives to manage skills shortages. Approaches such as apprenticeships, traineeships, grow-your-own schemes, and succession planning, have been utilised. Some councils offer existing staff the opportunity to move into expanding areas such as teaching or early learning and childcare. For example:

- North Lanarkshire has established a health and social care academy that aims to encourage young people to take up a career in the care sector.
- South Lanarkshire uses its switch to redeployment programme to match staff whose roles are at risk with suitable alternative roles, and it has initiatives in place to recruit staff for skills needed in its roads, early years and homecare services.
- Perth and Kinross has restructured all posts into five 'job families', which increases flexibility between services and encourages employees to retrain as the demand for skills changes between services. The council also operates a grow-your-own programme to address skills needs and tackle the challenge of its ageing workforce.

49. Councils need to continue to find ways to meet specific skills needs. This might include sharing staff with other councils or partners and working with education and training partners such as colleges and universities.

Partnership working

The full potential of collaborative working is not being realised.

50. There is some audit evidence of councils collaborating with partners when reshaping services, but this is not widespread. There are many examples of effective smaller-scale joint working.

51. The Commission continues to encourage councils to find ways to deliver services more efficiently and effectively through shared service arrangements and joint use of resources. With financial pressures and skills shortages in some areas, it is important that councils continue to work together to find innovative solutions. The following are examples of councils sharing services with others:

- Midlothian has developed some shared services and shared roles to help address challenges it faces as a smaller council. For example, it has shared a joint chief internal auditor with Scottish Borders since 2018. The chief auditor leads both councils' internal audit teams at a strategic level and is supported operationally by principal auditors in each council.
- South Lanarkshire is a host authority for a range of shared services, including the Clyde Valley Learning and Development Partnership comprising eight local authorities in the west of Scotland and set up to establish and deliver shared approaches to training, learning and development. This includes, for example, shared tools for e-learning development, accredited front-line management training, and learning and training for social care. These approaches enable the sharing of best practice across councils and making financial savings by providing joint training events and accreditation.
- Highland shares its procurement service with Aberdeen City and Aberdeenshire councils. The most recent annual procurement report shows that in total £1.39 million of savings was achieved during the period 1 April 2017 to 31 March 2018. As part of Highland Council's financial plans, it is looking at further ways of delivering savings through procurement.
- Stirling shares a trading standards service with Clackmannanshire. It also delivers animal health and welfare services on behalf of Clackmannanshire, Falkirk and East Dunbartonshire councils, and has a partnership arrangement in place with Clackmannanshire and Falkirk councils for a stray dog shelter.

Community Planning Partnerships need to take a more active role in leading partnership working and strategic change in some areas.

52. Good partnership working is evident across councils with many examples of services working well with partner organisations to deliver local services and projects with other public sector, private and third-sector organisations.

53. The picture at a strategic level is more mixed. Community Planning Partnerships (CPPs) should provide the strategic leadership and direction to local partnership working and be pivotal in driving improved outcomes for local communities. This is a joint responsibility across CPP partners, such as the NHS, and emergency services, as well as councils. However, much of the good local partnership working is happening independently of the leadership of the CPPs and their structures. Our BVAR audits during 2019/20 found the effectiveness of partnership working within the CPPs was mixed. For example:

- Midlothian - Midlothian Youth Platform involves more than 16 organisations from across the CPP, including third-sector bodies. They are working



How well do I understand all the partnership arrangements of my council?

How effectively is my council working with partners to deliver services better and/or save money?

What steps is the council taking to ensure partnership arrangements meet their full potential?

together on a project to redesign mental health and wellbeing support services for young people.

- Scottish Borders – Ambitions set out in locality plans had not been costed and so were not reflected in the council's or its CPP partners' budgets.
- Perth and Kinross – There is evidence of effective working in some parts of the CPP, for example the work of the Children, Young People and Families Partnership was commended by the Care Inspectorate in 2018. Some councillors and partners, however, raised concerns about community planning and other partnership working functioning as separate processes.

54. Councils need to build on their partnership working to respond to local challenges, such as inequalities and child poverty. Good partnership working is critical if councils are to deliver priorities and improved outcomes for communities.


Progress in integrating Health and Social Care has been too slow

55. There are 30 IJBs across Scotland. These are partnerships between NHS boards and councils. They are responsible for delivering adult health and social care, and, in some areas, for other services, such as children's services.

56. Progress with integration is slow. In 2018/19, a majority of IJBs struggled to break-even financially and 19 would have recorded a deficit without additional funding from the NHS and council partners at the year end. There is still limited evidence to suggest any significant shift in spending from health to social care. The Ministerial Strategic Group for Health and Community Care (MSG) is monitoring progress towards achieving the proposals set out in its integration review published in February 2019. The areas where least progress is being made include:

- IJBs being empowered to use all the resources at their disposal to better meet the needs of their local populations
- delegated hospital budgets and set aside requirements being fully implemented
- having effective, coherent and joined-up clinical and care governance arrangements in place.

57. The MSG also proposed that a framework for integrated community-based health and social care services should be developed. The framework intends to identify what a good service looks like.

58. Progress can be demonstrated in some cases. In December 2019, we reported that the Scottish Government, the Convention of Scottish Local Authorities (COSLA) and partners are progressing most of the recommendations made in the 2017 report ([Self-directed support: 2017 progress report Impact report](#)) . There is still significant work to do, which will take time to implement. The Care Inspectorate's thematic review in June 2019 found that there has been significant progress in implementing self-directed support, with some partnerships demonstrating significant change in their delivery of social care in this area. The review also highlighted, however, that more needs to be done to fully implement self-directed support.

59. The Commission has previously highlighted its concern about the pace of progress in integration. We published a report in November 2018, [Health and](#)



What obstacles are facing our area's IJB?

Am I aware of the steps taken to identify and address these obstacles and to improve the pace of integration?

[social care integration: update on progress](#) . We plan to report on social care sustainability in 2021 and will report on progress with IJBs in the next two to three years. The Commission is also currently considering how it will audit and report on Best Value in IJBs. Although the main focus of this overview report is on councils, the issues and changes required also relate to IJBs. We plan to report on social care sustainability in 2021 and will report on progress with IJBs in the next two to three years.

Regional economic development is stimulating improvements in collaborative leadership

60. Councils are active partners in the City Region and Growth Deals. A total of £5.2 billion has been committed so far to supporting economic development through City Region and Growth Deals ([Exhibit 6](#)).

Exhibit 6

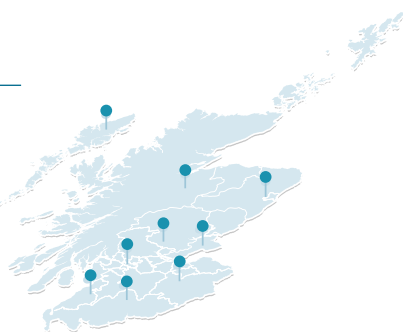
Progress in City Region and Growth Deals

4 deals have been signed to date

Totalling £3.7 billion

Involving 17 councils:

Glasgow City Region Deal; Aberdeen City Region Deal; Edinburgh and South East Scotland Region Deal; and Inverness and Highland City Region Deal.



8 further deals are in development

Receiving a further £1.5 billion of committed funding

Involving 15 further councils


If all the deals go ahead, all Scottish councils will be involved in a deal. Some deals involve single councils, others involve two or more councils, and some councils are involved in two deals.

The UK and Scottish Governments have between them committed £2.1 billion over 20 years, councils have committed around £600 million and other regional partners have committed just over £1 billion.

Councils need to be conscious of potential challenges, such as shortages in the necessary staff, money and skills to deliver the deals. The impact of spending on the deals should be balanced against councils' overall spending capacity, particularly in the current volatile landscape.

The impact of the deals has been unclear, as their measurement is not linked to the National Performance Framework.

Source: Audit Scotland, City Region and Growth Deals, 2020

61. The work around the deals is stimulating improvements in collaboration and partnership working across councils. Our report, [City Region and Growth Deals, January 2020](#) , highlights that the increase in joint working by council chief executives and officers is also starting to influence wider joint working. The evidence suggests that these relationships are beginning to influence how councils operate in other areas of council activity.


62. There are other positive examples of partnership working with a place and community focus. The Clyde Gateway Partnership involves South Lanarkshire and Glasgow City councils and Scottish Enterprise and receives funding from the Scottish Government. The project began around 12 years ago and aims to regenerate areas in the east end of Glasgow and Rutherglen. So far it has treated 248 hectares of contaminated land and delivered 2,995 new homes, while attracting 5,939 new jobs and assisting 2,813 businesses.

63. Midlothian Council partnered with the University of Edinburgh to create a multi-use facility including a secondary school for around 850 pupils, a public library, gym and sports facilities, including a swimming pool and community meeting spaces at the Newbattle Community Campus. It also provides workspaces for self-employed people and small businesses and provides access to and training in using the latest technology. The partnership has links to the Data Driven Innovation Programme and the City Deal, aiming to provide high-quality industry-led skills including those in digital technology skills.




Community empowerment and engagement

Most councils could do more to involve communities in planning services and better demonstrate how engagement is used to improve outcomes. Some councils have been slow to implement elements of the Community Empowerment (Scotland) Act 2015

64. Many councils recognise the value of involving their communities in the decision-making that affects their lives and in tackling inequalities to ensure that everyone can participate in that decision-making. But there has been slow progress in putting the **Community Empowerment**  Act's requirements into practice and few councils provide opportunities for communities to influence or take control of decision-making processes. More needs to be done to make the aims of the Act a reality.

65. The Community Empowerment Act requires each CPP to produce and publish a Local Outcomes Improvement Plan (LOIP). LOIPs set out a vision and focus for CPPs, based on agreed local priorities. The LOIP is intended to provide a shared plan for local communities in each CPP area. The LOIP is also the main framework that the CPP should publicly report its performance against. The CPP must be kept up to date and reflect local needs, circumstances and aspirations. The Community Empowerment Act requires CPPs to also undertake locality planning. These are plans focused on a specific locality within a council area. They should focus on tackling inequalities through targeted actions and involve participation of the community on the issues that affect it.

66. The Improvement Service reported, jointly with Audit Scotland and NHS Health Scotland, in its **2018 Local Outcomes Improvement Plans Stock-take**  that LOIPs are being used to varying degrees and that these need to be more focused on the areas where the CPPs can have the biggest impact.


67. Participatory budgeting activity in councils has been limited. The Scottish Government and COSLA have agreed that at least one per cent of council budgets should be determined through participatory budgeting by 2021. Many councils, however, are unsure about what approach to take, or if participatory budgeting should be carried out separately from their LOIP processes, which is not the intention of the Act. We also found that locality planning had not been completed on time by some councils.



Community Empowerment

The Community Empowerment (Scotland) Act 2015 gives people more influence over how their councils and their partners plan services. It is intended that councils will devolve power to communities to make a difference to their local areas through:

- Community asset transfers – where communities can take responsibility for land and buildings.
- Participation requests – where people can ask to take part in decisions about council services.
- Participatory budgeting – where communities can have a say in how the council should spend public money locally.
- Community planning – where community bodies can participate in community planning, in particular those that represent the interests of people who experience inequalities.

68. There is a range of guidance available to councils to help them develop their community empowerment approach. COSLA plans to publish guidance on participatory budgeting in 2020, which will include examples of positive practice and learning points. In July 2019, the Commission, alongside partners in the Strategic Scrutiny Group,⁴ published the [*Principles for community empowerment*](#)  (Exhibit 7, page 38). The intention is to provide consistent understanding across the scrutiny bodies about what is expected of public sector bodies. It is also a useful reference for councils and communities.

69. The Scottish Government has commissioned an evaluation of participatory budgeting and community asset transfer, which was due to report in April 2020. In November 2019, the Scottish Parliament’s Local Government and Communities Committee began a consultation on how best to achieve community wellbeing, which includes considering the effectiveness of community engagement arrangements and organisations working together in communities. This focus emphasises the importance of community empowerment and engagement. The Committee is considering the findings of its consultation as part of its current work programme, pending any changes in its programme required as a result of the COVID-19 pandemic.

70. Councils need to more fully embrace community empowerment as an integral part of changing the way they do things. It should not be seen as an add-on or separate to other work, but part of a new way of working. They need to engage with communities and involve the public in making decisions about the services councils provide, and the places people live in. This is crucial to councils making effective and sustainable changes to the ways they operate.

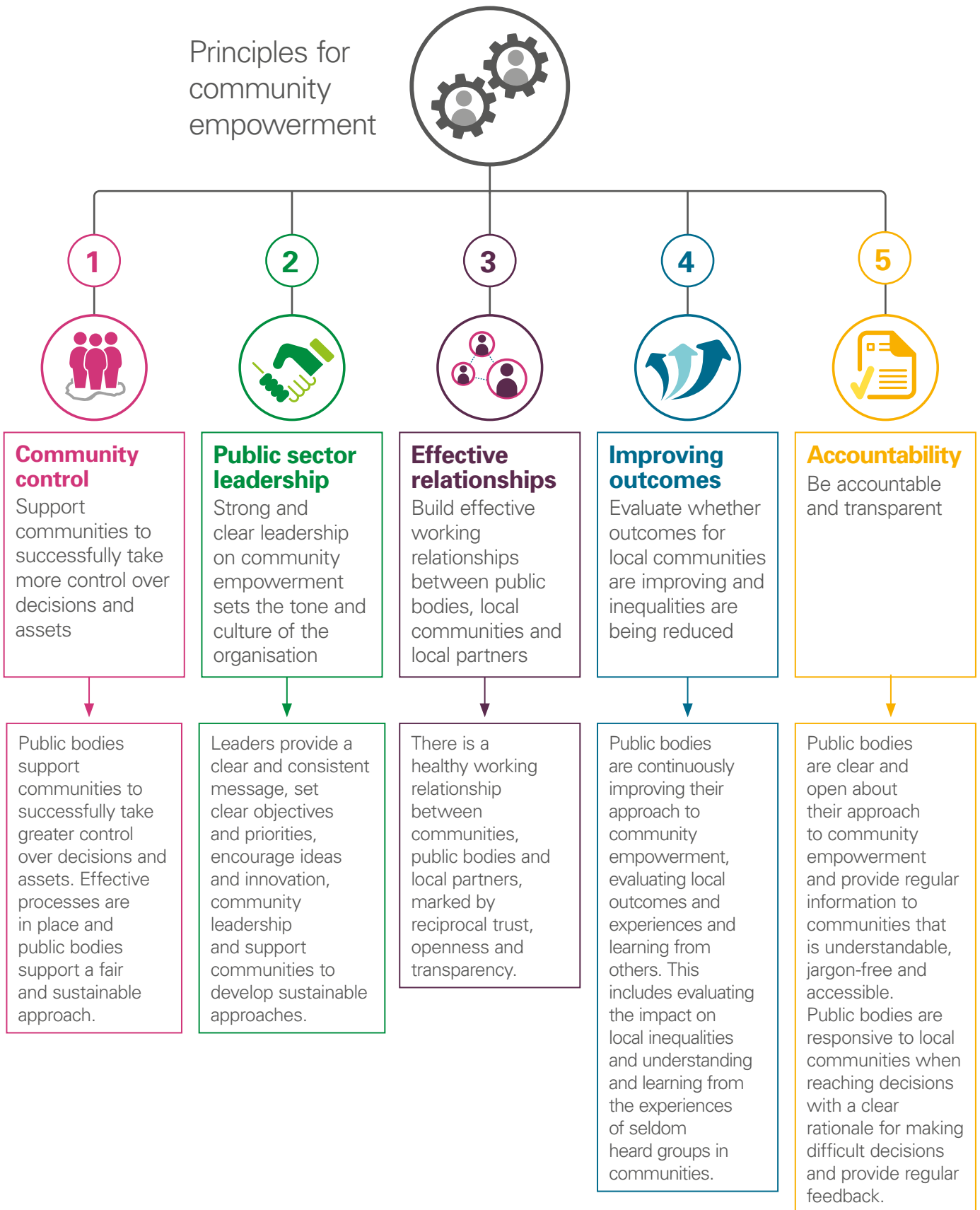
71. Community empowerment is relevant to all departments, roles and levels. It should not be seen as only relevant to staff who work directly with communities. All services should be involving communities more in decisions about public services. There needs to be clear leadership to embed this approach across organisations and to empower staff to carry out the activities and behaviours required to do this. It will mean more co-production of services, which will require trust between communities and public bodies and time to build up relationships. Ultimately, community empowerment should reduce inequalities and improve the wellbeing of communities, particularly those suffering from persistent inequality.



What do I know about the purpose and aims of participatory budgeting?

What do I know about my council’s approach to participatory budgeting, and how effectively is it using this to empower communities?

Exhibit 7
Principles for community empowerment



Source: Strategic Scrutiny Group, July 2019

The local governance review is still ongoing

72. The Scottish Government and COSLA have jointly made a commitment to work together to further empower communities and councils in Scotland through their local governance review. The aim is to ensure that Scotland's diverse communities and places have greater control and influence over decisions that affect them.

Not all councils are reporting their performance to the public in a comprehensive and transparent way

73. Effective public performance reporting (PPR) enables communities to assess the progress their council is making against its priorities and compare its performance with other councils.

74. All councils have performance sections on their websites; most publish annual performance reports and report the performance of their different services, and in most cases, these are linked to the council's strategic objectives. But there is wide variation in the quality of performance information councils publish, and some councils are not making it clear how their targets are being met.

75. The Commission's Statutory Performance Information (SPI) Direction of December 2018 reinforces the importance of councils reporting their performance to people and communities and is a key tool to guide councils on what information the Commission expects them to publish. Good PPR will fulfil the requirements of the Commission's SPI Direction. It should provide a clear picture of the council's performance as well as demonstrating how it is meeting its duty of delivering best value. PPR should use a range of media formats to target key audiences with information, including digital channels. This should consider different community needs, including hard-to-reach groups that may need specifically targeted approaches. Good PPR will show progress against strategic and outcome priorities as well as service performance, in a balanced way. For example, it will report areas for improvement and what is being done to address these, as well as where good progress is being made. Good PPR will also invite communities to provide feedback.

Some councils are using place-based approaches to improve outcomes for their communities


76. The *Place Principle* was adopted by COSLA and the Scottish Government in February 2018 to support elements of the National Performance Framework. The Place Principle challenges those responsible for providing public services (and those looking after their assets), to 'work collectively with partners and communities, with the shared objective of providing more successful places that support inclusive economic growth and improved outcomes for the people in an area.'

77. There are some limited but positive examples of councils working with partners to start taking a place-based approach. For example, Perth and Kinross has adopted a place-based approach to tackling inequalities for each of its seven localities. These are supported by 'stories of place', created by the council to provide a profile of each locality to support its work.

78. An increasing emphasis on place is apparent in other key policy areas and developments, for example in relation to the Planning (Scotland) Act 2019 which we will refer to in greater detail in our [planning services case study \(page 41\)](#). Place is also a core aspect of partnership planning as part of the LOIP and locality planning processes, the City Region and Growth Deals and participatory budgeting.



How well is my council providing clear, balanced and accessible information to the public about how well it is performing, what needs to improve and how it is addressing this?

79. The Scottish Government, in collaboration with NHS Scotland and Architecture and Design Scotland, has produced an online Place Standard tool (<https://www.placestandard.scot/>)  to help planners and communities assist with assessing and considering priorities for their places.

Service case study

Planning Services



80. In this section we focus on planning services to illustrate how the challenges for local government have affected this service area, and how it is responding. Planning is an important service for supporting delivery on national policy outcomes such as inclusive, sustainable economic growth and protecting and enhancing our environment. It is also subject to a range of national policy developments such as the new Planning (Scotland) Act 2019 (the Act) which changes the role and responsibilities of the service. It is an example of a service that has been significantly affected by reduced budgets and staff numbers in recent years. As with the previous sections, this case study was produced prior to the COVID-19 pandemic and does not reflect the challenges or changes that this brings to planning services. We are aware that councils are already responding with new thinking and approaches to the challenges, for example to enable physical distancing in streets.

81. Scotland's planning system is concerned with the use and development of land and buildings. Council planning services are a key part of that system, and their planning activity focuses on three areas:

- Development plans set out how places should change, and the policies councils use to make decisions on planning applications.
- Development management is the process for making decisions about planning applications.
- Enforcement is about making sure that development is carried out correctly and acting where this is not the case.



Challenges

How the challenges (page 10) are reflected in planning services Population changes mean changing pressures for planning services

82. The demographic changes set out in the first part of this report also have implications at a service level. For planning services for example:

- Growing populations in areas such as Aberdeenshire, East Renfrewshire and the Lothians mean increased demand for housing, local services and amenities. Councils need to plan for these changes.
- Areas with shrinking populations, such as Argyll and Bute, Ayrshire, Dumfries and Galloway, Inverclyde and Eilean Siar may see reduced demand for some services and different challenges for planners.

Population changes also have implications for local economic activity and economic development priorities as demand for services and availability of workforces and skills change. This will affect the local priorities for planning services



How well informed am I about the requirements of the Planning (Scotland) Act 2019 and what this means for the council?



What do I know about the demographic make-up and the projected changes within the council area?

How effectively is the council using this information to plan how we deliver services, including planning services?

83. Increasing proportions of people over 65 and 75 years old, changes in the child population, and changes in inequalities such as deprivation levels have implications for the demand for types of housing and local services in the places where people live.



The Planning (Scotland) Act 2019 introduces new responsibilities for planning services and requires them to have a more strategic focus

84. The Act brings significant challenges for planning services, with new duties and activities. It brings a shift in role from focusing on regulating the planning process to becoming more proactive in engaging with communities and organisations to achieve shared outcomes, and a focus on places. Key new responsibilities for councils include:

- a legal requirement to take Local Place Plans into account when preparing development plans – these cover issues such as housing, open space and community facilities as well as business and employment opportunities
- a duty to work with other councils to produce Regional Spatial Strategies
- the appointment of statutory chief planning officers
- new powers to introduce control areas where planning permission will always be required if owners want to change the use of their property to short-term lets.

85. The Act widens councils' focus beyond their current largely regulatory role to more proactively engage at a strategic level with people, communities and organisations in developing and improving the places where they live. Our [Planning roundtable February 2019](#)  highlighted that there is a perception within the profession that the value of planning services is not recognised. There is also evidence ([Scottish Government report: Barriers to community engagement in planning, May 2017](#))  that communities lack trust and confidence in, and respect for, planning services. To change this and deliver the Act's objectives there needs to be a cultural shift in the way planning services are delivered, to focus on community engagement and empowerment. This change requires different skills and approaches from planning services that challenge their current practice. Councils must now plan for how they will meet these challenges.

86. It is early days in the implementation of the Act, so it is too soon to assess the effectiveness of councils' responses. However, a good deal of change in planning services will be needed to implement the Act effectively. Council political leaders and managers will need to provide effective leadership, support and resources for planning services to enable these changes to happen at a good pace.



Planning services' budgets are shrinking at the same time as their responsibilities are expanding

87. Planning services must meet their new responsibilities while they have seen some of the most significant budget cuts of all council services, with a 28 per cent decrease in net expenditure between 2013/14 and 2018/19, (34 per cent in real terms).⁵ In response, planning services have been proactive for example by ensuring improved efficiency in processing applications. However, as councils face further forecast funding reductions the challenges for planning services are likely to increase.



Do I know how well prepared my council is to deliver the requirements of the Planning (Scotland) Act 2019?

How do I know if the planning service has the skills, capacity and resources to implement the new responsibilities the Act brings?



What am I and the council doing to improve or restore community trust, confidence and respect in planning services?

88. It is not possible at this stage to fully determine the financial impacts of the Act for local government, but RTPI (Royal Town Planning Institute) Scotland has estimated ([Financial Implications of Implementing the Planning Act, August 2019](#)) that the Act places 49 new and currently unfunded duties on councils. RTPI Scotland estimates these new duties could cost councils an extra £12.1 million to £59.1 million over the next 10 years.

89. Planning services can charge fees for the services they provide to people and businesses, such as assessing planning applications, and these fees constitute a small but increasing proportion of the total income of planning services. The Scottish Government sets the basis for their calculation, including the maximum that councils can charge for planning applications. Fees were last increased by the Scottish Government in 2017. The Heads of Planning Services (HOPS) report "[Costing the Planning Service February 2019](#)", found that fee income as a proportion of planning service costs increased from 26.1 per cent in 2014 to 32.9 per cent in 2018. But planning fee income does not, and isn't intended to cover the cost of planning services, and it is not retained exclusively by planning services to fund their activities. Planning services must therefore consider what changes will be needed initially and in the medium to longer term to resource their new responsibilities in the context of tightening budgets in the future. The Planning (Scotland) Act 2019 presents an opportunity to carry out a wide review of the planning fee structure, and a consultation on areas including looking at the potential for discretionary charging was completed in February 2020.



Uncertainty remains about the detail of the Act's requirements

90. Planning services, like all council service areas are affected by political and economic change and uncertainty. Most directly, although the Act sets out new responsibilities and roles, there will continue to be a level of uncertainty during 2020/21 while the Scottish Government develops secondary legislation and guidance to support delivery of the Act's objectives. More widely, planning services will need to respond to the economic impacts of political changes such as withdrawal from the EU and national and global economic changes. Planning services also have a significant role to play in responding to the escalating climate change crisis and in the national and local strategies to combat this.

Doing things differently

Planning services need to do things differently to be able to meet national policy priorities while maintaining and improving services

How the core aspects for change ([page 24](#)) are reflected in planning services.



Leadership: Strong leadership of planning services is needed to meet the challenge of performing new duties with reducing resources

91. Meeting the challenges of the Act and putting the Place Principle into practice requires strong leadership from council officers and councillors. Collaborative leadership is critical to success.

92. The Act introduces a statutory requirement for chief planning officers to be appointed in every council. This is a positive step creating a lead senior officer post to drive the changes required for councils to fulfil the objectives of the Act. Details of the role are yet to become clear, and the Scottish Government is scheduled to work with councils and partners over 2020 and 2021 to develop supporting guidance and legislation for the Act. Including chief planning officers



How confident am I and what assurance do I have that the council is well prepared to make the shift in planning services from the regulatory role to include more proactive engagement with communities and other partners?

as key members of councils’ senior management structures will enable the required collaborative leadership across council service boundaries and with partners.

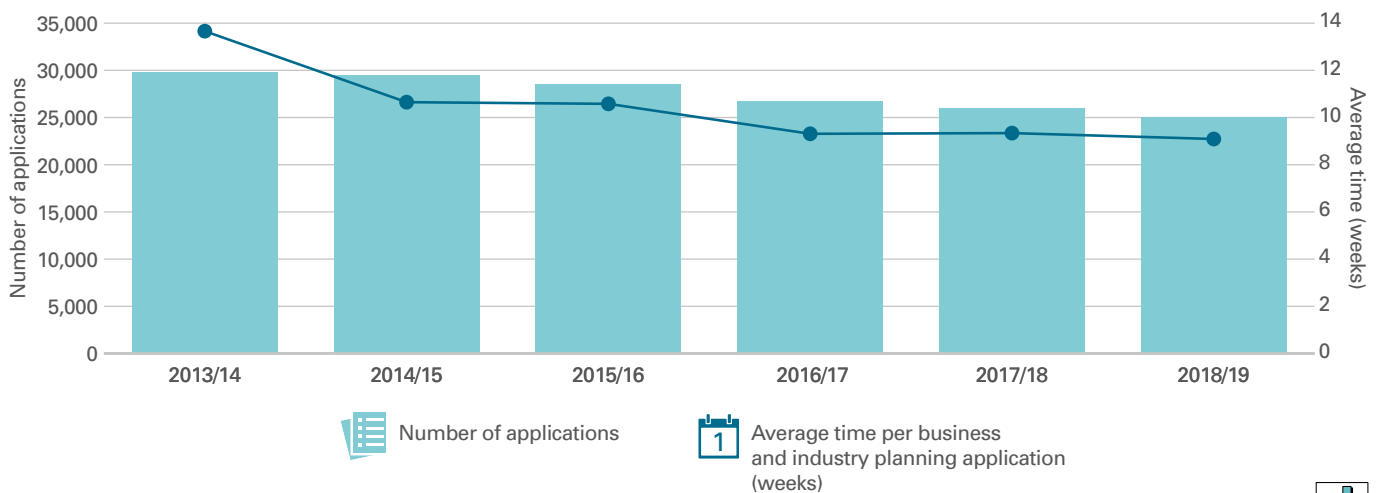
93. The cultural shift from a mainly regulatory to strategic role will need effective leadership and engagement with staff. Given skills gaps in change management in many councils, they need to consider how they will ensure the change management capacity required is put in place to support councillors and management to lead the culture change needed.

 **Change and improvement: planning services have improved performance over recent years but need to widen their focus from the regulation process to engaging with communities and partners**

94. Planning services have reacted to reducing budgets and staff numbers in recent years by focusing on providing a core regulatory service, ensuring that planning standards are being met.

95. Possibly as a result of that narrowed focus, performance in processing planning applications has improved. For example, the average time taken per business and industry planning application has fallen by 34 per cent since 2013/14.⁶ However, this improved performance has been achieved with reducing numbers of planning decisions made each year since 2013/14: from 29,779 applications to 25,027 in 2018/19 ([Exhibit 8](#)).

Exhibit 8
Planning decision times and number of applications since 2013/14



Source: Audit Scotland, Improvement Service, Local Government Benchmarking Framework data 2013/14 to 2018/19

96. Councils are making positive changes to the way they approach planning applications, which may also be contributing to improved performance. Many councils are increasing their use of pre-application advice which can reduce the numbers of applications they receive, for example, where the advice is that the application should not proceed. This approach may also increase councils’ efficiency when dealing with previewed applications.


97. The improving performance in reducing application processing and decision-making times is positive, but current performance indicators don't reflect how planning services impact on people and places or how they contribute to broader outcomes in the National Performance Framework. Wider measures of responsibilities beyond councils' regulatory role need to be developed so that councils can demonstrate their contribution to delivering them.

98. The Act provides opportunities to widen the scope of performance reporting, including new requirements for councils to produce annual planning performance reports, which they must submit to Scottish Ministers and publish. The detail of these reports has yet to be determined but the requirement puts statutory weight behind the Planning Performance Framework reporting process.

99. Measuring how planning services are delivering or supporting more successful outcomes means looking beyond service-specific processes to the outcomes achieved. For example, the Clyde Gateway initiative measures and reports progress against three strategic goals:

- **Sustainable place transformation** to focus on the overall infrastructure and environment of the area which in turn will increase its attractiveness as a place to live and work.
- **Increased economic activity** to attract major employers into the area and work with existing businesses to maximise growth, which in turn will generate employment opportunities for local people.
- **Building community capacity**, to ensure that there are increased levels of community participation in activities that promote a better, healthier lifestyle and/or improve employment prospects.

Progress against these strategic goals is measured through nine performance indicators. These measures are not service-specific but rather aim to assess progress made in these key outcome themes by all partners in the initiative.

100. The changed role, responsibilities and focus for planning services also mean that councils need to review how these services are funded, to ensure that they can meet their current responsibilities and the new duties arising from the Act. In January 2019, HOPS reported on the impacts of councils' 2017 major planning application **fees increases** , following the Scottish Government increasing the maximum planning application fees from £20,050 to £125,000 and maximum fees for applications for planning permission in principle from £10,028 to £62,500. The report found that the impact of the fee increases varied widely across Scotland: the main beneficiaries are the larger city councils, Edinburgh and Glasgow and the larger urban planning authorities. Smaller, more rural councils and island councils do not receive significant numbers of major applications, if any, which significantly influences the overall impact of the fees increase for these councils.

101. More broadly, planning fee income is not directly reinvested in planning services in many councils. In some councils planning fee income is treated as a corporate or council income, and so is not controlled by or ringfenced for the planning service. The additional income generated by fee increases does not make much difference to the budget available for reinvestment. Increasingly the income generated is offset against council savings targets.



The total additional income generated by a fee increase in 2017 was £4.2 million generated by 338 separate major planning applications. This averages out at £12.5 thousand per application or £124 thousand per planning authority; Edinburgh and Glasgow's combined fee increases were £1.2 million, or 29 per cent of the total Scottish fee increase.



Fees and costs of planning services vary across councils:

In 2018/19 Inverclyde had the highest planning application fee of £8,818, compared to the lowest fee of £1,048 in Renfrewshire.

Renfrewshire saw the largest reduction in the cost of planning between 2013/14 to 2017/18, by 74 per cent while Shetland Islands had the greatest increase of 218 per cent.



Workforce planning: the workforce in planning services is ageing and reducing in number. New skills will be needed to deliver the Act’s objectives

102. There are significant workforce challenges for planning services. Local government planning services have seen a 25.7 per cent cut in staff numbers since 2009⁷ ([Exhibit 9](#)).

Exhibit 9

Challenges for planning services workforce



Evolving role

The new duties under the Act place new demands on the workforce outside the traditional 'planner' role.

Building community engagement and collaborative relationships will be important.



Workforce reductions

In March 2019, there were 1,332 planners in Scotland.

Across local government planning staff numbers have reduced by almost 26 per cent since 2009.



Workforce profile

Around 9 per cent of planning staff are aged under 30 and 35 per cent are over 50.

Only around 100 new planners graduate each year, many taking up private sector employment.



Skills gaps challenge

A HOPS survey found that 30 councils confirmed that they had to fund additional technical planning expertise in the last three years.

Only 18 councils had in-house training provisions.

28 councils shared a service with another council.

Training and sharing services is more challenging for island authorities, due to the associated distance and cost.

Source: Audit Scotland, Heads of Planning Scotland, Royal Town Planning Institute Scotland

103. Seven councils reported challenges in recruiting for planning roles in the last year (Argyll and Bute, Dumfries and Galloway, Eilean Siar, Glasgow City, North Ayrshire, Shetland and West Dunbartonshire). Councils are taking steps to address their skills and recruitment challenges, for example:

- Eilean Siar, which had to re-advertise for a planning officer, looked at unqualified applicants interested in learning additional skills to become a planning officer. The council operates a career-grade structure, which supports officers to qualify through work.
- North Ayrshire, recognising a nationwide deficit in qualified and experienced planners, has re-designated planning officer posts to planning assistants and recruited new graduates. Staff development is supported with a planning skills programme including training and site visits.




Do I know how the council is addressing any specific issues with the workforce age profile or skills gaps in services, such as planning services?

- West Dunbartonshire, which experienced difficulties in recruiting building and planning officers, is investing in a 'grow-your-own' programme.

104. In terms of planning training and development for councillors, 28 councils have an in-house training programme for planning committee members. The Act strengthens the importance of training councillors on planning, giving councils the power to impose training requirements and a requirement that councillors who have not completed specified training will be excluded from taking part in planning business.

105. Further collaboration and innovation are required to tackle skills gaps and respond to the training and capacity issues in planning services and in the range of specialisms within planning. The Improvement Service is working with Skills Development Scotland to identify planning skills demands, needs and gaps across councils, what training and support is currently provided, and what measures are needed to address the recruitment challenges that planning services face.

Partnership working: planning services need to build relationships with other council services, external partners and communities

106. The Act puts increased emphasis on planning services engaging and collaborating with key partner organisations and communities to develop and improve places. The need for improved collaboration has been an issue for some time as highlighted in a report by HOPS in 2013, [Collaborative working in development planning](#)  which highlighted key themes for improvement:

- the importance of ongoing dialogue
- clear and considered engagement, including improved publicity for consultations and engagement methods so that all parties get the most out of them
- culture change, collaborating more effectively with partners in developing policies, engaging meaningfully with partners and using shared information to improve outcomes
- clearly communicating roles and remits.

These themes are now even more relevant given the Act's requirements. Making the necessary changes in practice and culture happen is challenging and will take time to become a reality, so councils need to respond actively and with urgency now.

Community empowerment and engagement must become a core activity for planning services to deliver the letter and spirit of the Planning Act and the Place Principle

107. Planning services have an important role to play in supporting community empowerment. They need to effectively engage and involve communities when developing proposals and local plans for the places where they live. This reflects the purpose of community empowerment, namely, to reduce inequalities and improve the wellbeing of communities, particularly those suffering from persistent inequality.

Case study



West Dunbartonshire

West Dunbartonshire Council's Place and Design Panel brings together professionals to provide objective guidance on design through collaborating with developers, architects and contractors. The panel aims to ensure a high-quality built environment that 'raises aspirations, elevates levels of health and wellbeing and increases economic vitality'. The panel's volunteer members review planning proposals in the design review process, before they reach the application stage. It aims to improve the quality of the proposals and allow applicants to consider a wide range of issues such as the suitability of materials and wider considerations such as transport links.

West Dunbartonshire includes some highly deprived areas. The council wants to raise people's aspirations in those areas and focus on planning as an enabler of improvement. To do this the panel has developed close working relations with a range of other council services.

The council has seen positive early indications of the panel's value such as encouraging more open and informative conversations between developers and planners, which creates a smoother planning process. The panel's role is still developing and one of its key aims is to encourage more community involvement in the design process.

Source: Audit Scotland

108. To deliver the aims of the Planning and Community Empowerment Acts, planning services need to be much more proactive in leading the collaborative development of places, by bringing together the various parties across their communities. This requires a change in focus from meeting statutory responsibilities to linking planning activity to wider outcomes, and to developing local plans in partnership with communities and partners.

Planning services are key drivers in delivering the Place Principle

109. The challenges brought by the Act are still taking shape as the Scottish Government develops supporting secondary legislation and procedural guidance over the next two years. But from our review of a sample of councils' Planning Performance Framework reports there are examples of councils adopting different approaches, with an awareness of the value of prevention to address current challenges, such as:

- encouraging online applications
- increasing use of pre-application advice services
- developing new software techniques for various aspects of planning, for example mapping exercises
- re-aligning planning teams, changing how teams are structured and the scope of work for team members

- using revised schemes of delegation to create efficiencies, upskilling existing staff to process planning applications more efficiently and to work across diverse roles.

The Place Principle aims to move public service delivery away from the traditional focus on service structures and boundaries to place-based approaches which have communities at their heart. Such approaches aim to create more successful outcomes for people and communities, through improving the quality of people's lives. Within this principle there is scope for the planning system to support the delivery of some of the outcomes in the National Performance Framework, and for councils to focus on this through planning services' changing role.

110. A 2017 Scottish Government report '[Barriers to community engagement in planning: a research study](#)' highlighted that there is limited public trust, confidence in and respect for the planning system and that public perceptions are that community engagement has very little influence on planning outcomes. The study highlighted reasons for seldom-heard groups' exclusion from the planning process, including officers' attitudes towards disadvantaged and minority groups, as well as the skills, capacity and motivation of those groups. The study findings also mirrored our 2019 planning roundtable discussion where planning practitioners and key stakeholders find that too often engagement is about managing expectations and securing consent for development proposals, rather than working with communities to achieve better planning outcomes.

111. To be effective planning services need to lead a change in perceptions of planning and its relationship with communities. This means attracting and developing people with the right skills, including leadership, to work with communities and partners to make improved places a reality.

112. Through our BVAR work in 2019, we saw some examples of councils taking a place-based approach to improving the lives of the people in their communities:

- North Lanarkshire Council plans to demolish all its tower blocks and replace them with new modern homes to help reduce inequalities. This is part of its regeneration of place 'plan for growth', which also includes transforming town centres. The council's 'tower re-provisioning programme' will see tower blocks and low-rise properties demolished across North Lanarkshire over the next 25 years, and the council's 'NL Homes' new build programme aims to deliver 5,000 affordable new homes by 2035.
- Perth and Kinross Council adopts a place-based approach for each of its seven localities, aimed at tackling inequalities. Localities are each supported by 'stories of place', created by the council to summarise statistical and background information on each locality to support its work.
- Clyde Gateway is a partnership between Glasgow City Council, South Lanarkshire Council and Scottish Enterprise, with funding and support from the Scottish Government. Beginning in 2008, the 20-year initiative aims to lead social, economic and physical change across communities in the east end of Glasgow and Rutherglen.

113. Planning services are operating in a challenging environment that reflects the wider challenges faced by local government. The introduction of the Act heightens that challenge. Council planning services must grasp the opportunity this presents by building on good practice and developing new ways of working. This includes working with communities more closely and engaging with them and with partners to develop shared plans and objectives to improve places and jointly tackle inequalities.








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Local government in Scotland



Overview 2020

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AUDIT SCOTLAND COUNTER FRAUD REPORTS

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

28 September 2020

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to make the Audit and Scrutiny Committee aware of recently published counter fraud reports by Audit Scotland and the Management Actions required in response for improvement and assurance purposes.**
- 1.2 Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on prevention and detection and promotion of anti-fraud culture across the Council, taking account of reducing resources, are associated with the Counter Fraud Strategy endorsed by this Committee and approved by the Council in 2018.
- 1.3 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. One way it can achieve that is self-assessing the Council's arrangements against best practice and agreeing any appropriate actions to continuously improve the arrangements in place.
- 1.4 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.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Acknowledge the Audit Scotland counter fraud reports published in recent months;**
 - b) Request that the Corporate Fraud Steering Group (Integrity Group) of officers consider all three reports as part of their counter fraud role and responsibilities; and**
 - c) Request that the Corporate Fraud Steering Group (Integrity Group) carry out an assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks and report back to the Committee on findings and necessary actions.**

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.
- 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 AUDIT SCOTLAND COUNTER FRAUD REPORTS JUNE & JULY 2020

- 4.1 One way to improve the Council's resilience to fraud, corruption, theft and crime is through engaging with national forums to share intelligence, lessons learned and best practice, carrying out a self-assessment of the Council's arrangements and agreeing any appropriate actions to continuously improve the arrangements in place.
- 4.2 The following reports have been published by Audit Scotland in recent months relating to fraud risks and outcomes:
 - <https://www.audit-scotland.gov.uk/report/fraud-and-irregularity-update-201920> (published 30 June 2020) A summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2019/20. Covid-19 raises risk of public-sector fraud.
 - <https://www.audit-scotland.gov.uk/report/the-national-fraud-initiative-in-scotland-201819> (published 9 July 2020) Scotland's public finances have been boosted after a data-sharing exercise identified over £15 million of potential fraud and errors across the public sector. But auditors have warned that the Covid-19 pandemic has brought additional fraud risks.

- <https://www.audit-scotland.gov.uk/report/covid-19-emerging-fraud-risks> (published 23 July 2020) The Covid-19 pandemic has brought significant challenges across the Scottish public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time, bringing greater risks of fraud.
- 4.3 This provides an opportunity for the Corporate Fraud Steering Group (Integrity Group) to consider the recently published counter fraud reports by Audit Scotland and determine any Management Actions required in response for improvement and assurance purposes.
- 4.4 The Audit Committee is recommended to assign some tasks to the Corporate Fraud Steering Group (Integrity Group) associated with the recently published counter fraud reports by Audit Scotland and to request an assurance report thereon.

5 IMPLICATIONS

5.1 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.

5.2 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.

5.3 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.

5.4 Acting Sustainably

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

5.5 Carbon Management

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

6 CONSULTATION

- 6.1 The Corporate Fraud Steering Group (Integrity Group) has been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.

- 6.2 The Corporate Management Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers, has been consulted on this report.
- 6.3 The Executive Director Finance & Regulatory, Chief Legal Officer (and 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.

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

Background Papers: Scottish Borders Council’s Counter Fraud Policy Statement and Counter Fraud Strategy; Audit Scotland website

Previous Minute Reference:

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Contact us at Corporate Fraud fraud@scotborders.gov.uk

COUNCIL FUNDED POLICE COMMUNITY ACTION TEAM

Report by Chief Social Work and Public Protection Officer

AUDIT & SCRUTINY COMMITTEE

28 September 2020

1 PURPOSE AND SUMMARY

- 1.1 This report provides an overview and summary of activity undertaken by the Police Scotland Community Action Team (CAT) since its formation in 2018/19.**
- 1.2 In the financial year 2018/19 a sergeant and six constables came together to form the initial CAT. These officers funded by SBC were in addition to the Scottish Borders authorised policing establishment.
- 1.3 For the purposes of oversight and scrutiny a Member/Officer Oversight Group was established, this is cross party and representative of localities. Meetings are held monthly, CAT activity in the previous month is scrutinised and tasks for the upcoming month are agreed.
- 1.4 In 2019/20 a second CAT was established taking the complement to two sergeants and twelve constable. The increase in officers was incremental over several months. The initial commitment with Police Scotland for both teams is for three years up to the end of 2020/21.

2 RECOMMENDATIONS

- 2.1 I recommend that Audit and Scrutiny Committee notes the details of the management and operation of the Police Community Action Teams in the Scottish Borders.**

3 BACKGROUND

3.1 Prior to April 2013 policing in the Scottish Borders was provided by Lothian and Borders Police (established in 1975), and formed one of 4 Territorial Divisions, G Division as it was known was co terminus with the Scottish Borders Council electoral boundaries.

- a) G Division Headquarters, based in Hawick, had the infrastructure and full spectrum of local policing resource at its disposal with a locally based Chief Superintendent accountable for the delivery of the policing function.
- b) The formation of Police Scotland in 2013 saw the creation of the Lothian's and Scottish Borders Division (J Division) consisting of West, East and Mid Lothian and the Scottish Borders. These areas had been 3 divisions under the legacy structure.
- c) J Division has its headquarters in Dalkeith with a Chief Superintendent responsible for the delivery of policing. Locally within the Scottish Borders is a Local Area Commander responsible for response policing, performance and management of personnel.
- d) As Police Scotland established and many of the national, regional and divisional structures formed there was a recognition that resources, in particular, associated with local policing had been lost from the community.
- e) Community policing had been a strength under the legacy structure and given the national resource allocation coupled with the need to develop specialist functions there was no likelihood that additional resources would be provided to the Scottish Borders.
- f) Scottish Borders Council recognised a gap in the profile and style of community policing the area had been accustomed to and made a commitment to fund additional community policing resources with appropriate political oversight.
- g) This resulted in the Council funded police Community Action Team being established. Other council areas have similar schemes to enhance community policing.

3.2 **Strategic Oversight Group – Terms of Reference**

- a) As part of the formation of the CAT a Strategic Oversight Group was established consisting of nine Elected Members a number of council officers and Police Scotland representatives. An Elected Member chairs the meeting.
- b) The objective of the Strategic Oversight Group is to ensure the Council maximises the value and operational effectiveness of the CAT across the Scottish Borders. An intelligence led approach has been taken to identify priority areas of activity that supports delivery of the Police Scotland Local Policing Plan and the Community Planning Partnership Community Plan.
- c) The Strategic Oversight Group has physically met on most months since the CAT's formation. During holiday periods and through the Covid-19 pandemic the meeting cycle has been maintained through an electronic exchange of information and using Microsoft Teams. This has been important in maintaining focus and clarity of purpose.

- d) Each meeting commences with the signing of a confidentiality agreement.
- e) The meeting then:
 - i) Reviews the previous months CAT activity
 - ii) Considers the forward looking analytical picture
 - iii) Attendees offer relevant context through local knowledge
 - iv) Elected Members raise emerging constituency issues
 - v) Attendees consider an appropriate response to identified current or emerging issues which are realistic and achievable
 - vi) Collectively consider alternative options and approaches to address specific identified problems
 - vii) The meeting concludes with an agreed CAT activity plan for the month.

3.3 Operational Delivery (Tasking)

- a) Each month proposals are put forward by the partnership analyst, elected members and Police Scotland that constitute identified or emerging problems/risks in the Scottish Borders. Specifically those that could benefit from focused Police attention to address the issues raised. Each proposal is considered and if deemed appropriate it becomes a specific tasking activity for the CAT.
- b) The table below shows how many proposed problems were discussed at the oversight meeting and of those problems how many became accepted tasks for the CAT. The proposed and accepted tasking is spread across all localities. Parking issues are included in the numbers below.

	2018/19		2019/20	
	Proposed	Accepted	Proposed	Accepted
Berwickshire	20	10	18	12
Cheviot	21	10	21	11
Eildon	28	20	28	21
Teviot	28	12	23	16
Tweeddale	18	9	18	15
Total	115	61	108	75
% Accepted Tasking	53.0%		69.4%	

- c) The figures show that in 2018/19 53% of proposals were accepted as tasking by the CAT. In 2019/20 this increased to 69.4%. The increase in accepted tasking in 2019/20 demonstrates the refinement of suitable proposals.
- d) Proposals not accepted are directed towards an alternative policing or council response.
- e) Only when a task is accepted by the CAT and becomes a 'problem solved' is it removed from the live tasking process. This occurs when there is sustained improvement.

- f) The incremental introduction of a second CAT has ensured equity and consistency in the policing profile across each month.

Management Information & Reporting

- 3.4
- a) To ensure the CAT activity is effectively monitored there are a number of mechanisms in place to ensure the work of the CAT is visible not only to elected members and council officers but also to the wider community within Scottish Borders.
 - b) All tasking proposed for the CAT, regardless of the source of the report, is logged and any action agreed to address the proposed problem is documented.
 - c) Not all tasks are appropriate for the CAT so where tasking is directed away from the CAT a record is maintained. The logging of all proposed tasking and clarity where the responsibility lies for addressing issues allows for effective tracking of the CAT and other disposal options when dealing with community issues.
 - d) The following summarises the reporting information available about the CAT:
 - i) Each month a summary of the CAT activity in relation to the agreed tasking is collated by the partnership analyst with input from the CAT sergeants. The summary shows the impact the CAT has had in statistical terms, that is any reduction in the number of incidents reported to Police Scotland as a result of the CAT actions. The CAT sergeants then provide narrative as to the work the team has undertaken to help reduce the volume of incidents reported to Police Scotland. The summary is shared with the CAT Oversight Group members. Summary statistics are provided to CAT Oversight Group members that can be shared with their communities.
 - ii) Every quarter an impact report is prepared for CMT and Council Executive, which is also made public and provides statistics and narrative of the work of the CAT within the quarter. The quarterly summary is similar to that provided on a monthly basis to CAT Oversight Group members.
 - iii) An example of the statistical information contained within the quarterly summary is the CAT deployment activity. The following table shows the number of hours the CAT have been deployed on foot and vehicle patrols in each year of operation.
 - iv) **Please note:** The hours quoted are not per officer based hours currently. For example a one hour foot patrol in a town could involve four CAT officers but it would be recorded as one patrol hour not four. For 2020/21 reporting the data collected will move to officer hours therefore it is expected patrol hours will increase.

	2018/19	2019/20
Foot Patrol Hours	335	585
Vehicle Patrol Hours	589	1046

- e) Other statistical information in relation to CAT tasking activity is shown in the Key Successes section below.

Key Successes

Drug Searches and Seizures

3.5

- a) The CAT have made significant inroads into addressing drug issues throughout the Scottish Borders and built on initial successes in 2018/19 with a number of significant drug seizures in 2019/20.
- b) The table below provides statistics on drug recoveries by the CAT in the Borders in the last two years. The value of drugs seized is approaching one million pounds and the effective targeting of persons and premises has accounted for an increased percentage of successful searches. This is important as success reflects the quality of intelligence. Drug recoveries make a significant contribution to the removal of community risk and harm.

	2018/19	2019/20
Positive Drug Searches (Property)	52	46
% Positive Drug Searches (Property)	80.0%	83.6%
Positive Drug Searches (Person)	75	69
% Positive Drug Searches (Person)	34.6%	37.3%
Drug Seizure Value	£12,500	£931,497

Examples of Activity - Youth Issue Resolution

- 3.6 a) Eyemouth - In November 2019 there were 21 reports of youths causing issues in Eyemouth, often in large groups. The CAT were deployed to the area and as a result reports dropped to 7 in December 2019, a 67% reduction in reports.
- b) Hawick - In April 2019 there were 60 reports of youths causing issues in Hawick as a whole with 12 reports at a specific location. The CAT was deployed to the area and reports dropped to 40 reports in May 2019, a 33% reduction. A further reduction was evidenced in June 2019 with 23 reports being made. The 62% reduction in reports in June 2019, when compared to April 2019, has been sustained.
- c) Peebles Town Centre – In November 2019 there were 29 reports of youths causing issues in Peebles, often in large groups with alcohol involved. The CAT were deployed to the area and as a result reports dropped to 7 in December 2019, a 76% reduction in reports. The reduction in reports has been sustained.

Parking Tickets

- 3.7 a) There were 884 parking tickets issued by the CAT in 2018/19 and 742 issued in 2019/20.
- b) There was a slight interruption in activity during June/July 2019 due to the availability of ticket books and latterly Covid-19 restrictions.
- c) It is also worthy of note that certain parking restrictions require the officer to observe the vehicle, wait for a period of time for the

offence to be complete before a ticket can be issued, for example a single yellow line or timed parking.

- d) On occasions photographic evidence of parking breaches has been submitted by members of the public or elected members for the CAT to enforce. However this is not possible as parking tickets cannot be issued retrospectively.
- e) The officers invest a considerable amount of time to parking enforcement in addition to the agreed priorities for the month.

Initiatives

- 3.8 a) In recognising the role that parents and guardians have for their young people a system of Youth Warning letters has been introduced during 2020/21, driven by the CAT. Any young person involved in antisocial behaviour and spoken to by police officers will have a letter sent to their home advising them of the type of behaviour the young person was involved in and the date on which they were spoken to. There is an escalation process if individuals are in contact with the police on more than one occasion for similar behaviour.

Seasonal Activity

- 3.9 a) The cultural and sporting events held across the Scottish Borders provide an opportunity for the CAT to engage with local communities but also to take a proactive stance in relation to issues such as underage drinking and antisocial behaviour. For example at the Stowed Out Festival the CAT were engaging with festival attendees in the wider environs of the event that were away from the designated event area. They also intervened post event when large numbers of people were still present in the area to safely disperse festival goers.
- b) Opportunistic crime can also be prevalent at some events and the CAT have supported the local community police officers in enhancing visibility at these events. For example in Innerleithen cycle theft prevention was a major focus of the team but dealing with constituency complaints associated with large gatherings such as parking issues and misuse of footpaths by cyclists was also addressed.

Dog Fouling

- 3.10 a) As you would expect the CAT along with all police officers will take action if they witness dog fouling occurring. Enforcement runs in parallel with encouraging responsible dog ownership by council officers.
- b) In circumstances in which a complaint of dog fouling is made known to the council and there is a witness prepared to give a statement to police identifying the dog and its owner then the CAT will investigate with a view to issuing a fixed penalty notice. The report to the CAT must be made within 7 days of the dog fouling offence occurring. There are often complaints made but either there is an unwillingness to provide a statement or the owner/dog is unknown. Information on numbers of tickets issued are available on the council web site.

Conclusion

- 3.11 a) The introduction of the CAT has provided an increase in resources to the community policing profile of the Scottish Borders beyond the Police Scotland authorised establishment.
- b) While examples of CAT activity are outlined in the report there is no doubt that these officers have also made a positive impact on violent related crime, licensing engagement, youth engagement and protecting the most vulnerable in our communities.
- c) The relationship between elected members, council officers and the CAT has developed over time as they collectively contribute to addressing issues of community concern. Importantly agreed activity is underpinned by a sound analytical profile necessary in giving credibility to the process.

4 IMPLICATIONS

4.1 Financial

- a) The Service Level Agreement (SLA) with Police Scotland for the two CAT is for three years to 31 March 2021.
- b) For the CAT to continue beyond 2020/21 a budget will be required and a refreshed SLA agreed.
- c) Not less than three month's notice is required to terminate the agreement.

4.2 Risk and Mitigations

- a) The effect of doing nothing will result in the demise of the CAT at the end of March 2021. There is no prospect of Police Scotland increasing its authorised establishment in the Scottish Borders.
- b) The opportunity to positively influence and direct policing activity through the CAT Oversight Group towards issues of community concern would be lost.
- c) Protected police time and the ability to readily commit to a proportionate response over a period of time would be compromised.
- d) Without the CAT additional short term requests for additional police resources would have to be made by the police Local Area Commander and may or may not be made available depending upon priorities elsewhere, divisionally, regionally or nationally.
- e) The police have operational independence, without the CAT this very local interface point with elected members and officers would be lost.
- (f) In legislation scrutiny of the Local Policing Plan will continue to be undertaken at the quarterly Police, Fire & Rescue and Safer Communities Board, and through the Community Planning Partnership structures. Additional representation on matters concerning policing can be made to the Police Authority and through COSLA.

4.3 **Equalities**

There are no equalities issues associated with this report.

4.4 **Acting Sustainably**

At this stage there are no immediate effects.

4.5 **Carbon Management**

At this stage they are not known.

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

No changes are required to the Scheme of Administration or Scheme of Delegation.

5 CONSULTATION

- 5.1 The report is to provide information to the Audit and Scrutiny Committee on the development of the CAT and some of its successes.

Approved by

Stuart C Easingwood
Chief Social Work and Public Protection Officer
Signature

Author(s)

Name	Designation and Contact Number
Graham Jones	Safer Communities & Community Justice Manager Ex 8094

Background Papers:

Service Level Agreement

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

Contact us at Graham Jones, Graham.Jones@scotborders.gov.uk, Tel 0300100 1800 ex 8094.

PROPOSED SCRUTINY WORK PROGRAMME

Committee dates – Thursday 22 October (Scrutiny); Monday 23 November; Thursday 10 December 2020(Scrutiny); Thursday 14 January 2020 (Scrutiny); Monday 8 February 2021; Monday 10 May 2021, Thursday 3 June 2021 (Scrutiny); Tuesday 29 June 2021.

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER	COMMITTEE MEETING DATE
1.	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: Initial Scrutiny hearing to determine best methodology and reporting</p>	Stuart Easingwood, Chief Social Work & Public Protection Officer	28 September 2020
2.	Welfare Fund	<p>Scope: An evaluation of how SBC manages applications alongside other funds</p> <p>Approach: Scrutiny hearing</p>	Jenni Craig, Service Director Customer & Communities	22 October 2020
3.	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	

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER	COMMITTEE MEETING DATE
4.	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: Scrutiny information briefing</p>	John Curry, Service Director Assets & Infrastructure	
5.	Recycling and Waste Policy	<p>Scope: An evaluation of the effectiveness of the Recycling and Waste Policy</p> <p>Approach: Scrutiny hearing</p>	John Curry, Service Director Assets & Infrastructure	
6.	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	
7.	Balance between 20mph speed limits and street architecture	<p>Scope: An evaluation of the current situation and future plans</p> <p>Approach: Scrutiny hearing</p>	John Curry, Service Director Assets & Infrastructure	

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER	COMMITTEE MEETING DATE
8.	Income Management Policy	<p>Scope: Review the Income Management Policy established in 2012 and benchmark current charges against other areas of Scotland.</p> <p>Approach: Initial Scrutiny hearing to determine best methodology and reporting</p>	David Robertson, Executive Director (Finance & Regulatory)	
9.	Grass Cutting Regime & Biodiversity	<p>Scope: Receive information on the existing grass cutting regime and the effectiveness of biodiversity plans.</p> <p>Approach: Scrutiny information briefing</p>	John Curry, Service Director Assets & Infrastructure	
10.	Responsible Dog Ownership Policy	<p>Scope: Review the implementation of the policy and establish its level of success</p> <p>Approach: Scrutiny hearing</p>	David Robertson, Executive Director (Finance & Regulatory)	
11.	Rural Proofing Policy	<p>Scope: Review of the effectiveness of the current Rural Proofing Policy.</p> <p>Approach: Scrutiny hearing</p>	Rob Dickson, Executive Director	

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER	COMMITTEE MEETING DATE
12.	Council resources on Roads, including white lining	<p>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.</p> <p>Approach: Scrutiny hearing</p>	John Curry, Service Director Assets & Infrastructure	
13.	Following the Public Pound – grant evaluations	<p>Scope: An evaluation of the process for grant monitoring and evaluation</p> <p>Approach: Scrutiny hearing</p>	Jenni Craig, Service Director Customer & Communities	
14.	Management and Maintenance of Public Halls	<p>Scope: An evaluation of the community contribution to the management and maintenance of public halls, including those managed by Live Borders.</p> <p>Approach: Scrutiny hearing</p>	Rob Dickson, Executive Director	