

Scottish Borders Council
Pension Fund

annual report and accounts

for the year to 31 March 2019



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REPORT BY CHAIRMAN OF PENSION FUND COMMITTEE

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2019. 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 2018/19.

Highlights for 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 have completed The Pension Regulator's Trustee Toolkit and 75% of Board completed.

The Joint meetings of the Committee and Board continued during 2018/19 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

The value of the Pension Fund has continued to increase with strong returns coming from global equities. The Fund has progressed well with the ongoing implementation of the Strategic Asset Allocation approved in September 2018.

The overall Fund grew by 7.6% during 2018/19, marginally underperforming its benchmark by 0.1%. The overall fund value increased to £732.9m, an increase of £48.3m.

The Fund has made good progress rebalancing the asset allocation towards the approved strategy. Exposure to equity investment has consequently been reduced from 58% to 48% of the overall fund. Investment in infrastructure has increased by 2.4% during the year and the fund continues to investigate opportunities to further invest in this asset class in collaboration with Lothian Pension Fund.

New appointments were made during the year for Infrastructure Debt managers who have now commenced the drawing down of the allocated funds.

Statement of Responsible Investment

The Committee believes that a positive approach to Environmental, Social and Governance issues can positively affect the performance of the Fund. A Statement of Responsible Investment was approved forming a corner stone to the Fund ESG policies.

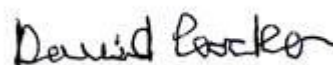
Pensions Administration

100% of annual benefit statements were distributed within the required timescales and work has progressed well in finalising the GMP reconciliation.

Following a procurement process the Fund appointed a new actuary Hymans Robertson on 1st December 2018.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our investment managers, our investment advisor KPMG, our outgoing actuary Barnett Waddingham and the new 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**

MANAGEMENT COMMENTARY

Management and Financial Performance

Scottish Borders Council Pension Fund

2018/19 Key Highlights

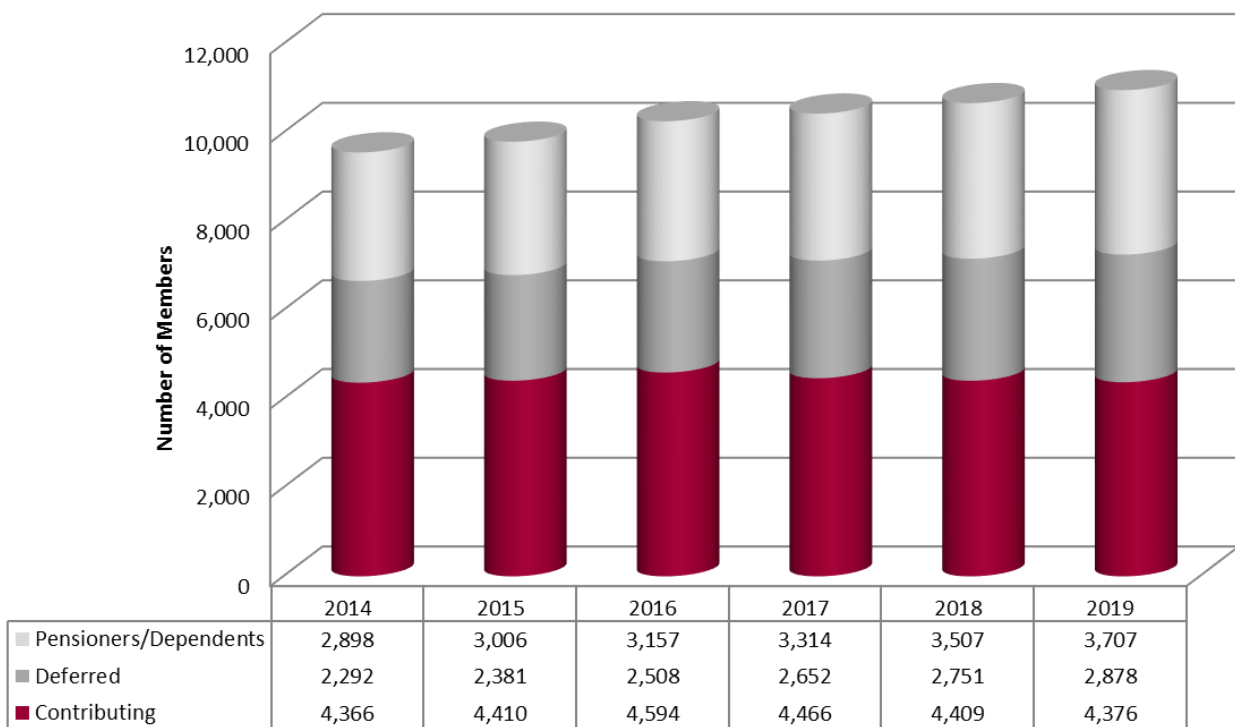
- £732.9m Net assets, an increase of £48.3m on 2018/19
- Strong performance return of 7.6% for 2018/19 and 11.3% for the rolling 3 year period
- Fund continues to meet its strategic investment return benchmark over the rolling 3 year period
- Continued sound governance of the Fund and engagement of Members in the training programme
- 10,961 Members, an increase of 294 on previous year

The Scottish Borders Council Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS) is administered by Scottish Borders Council (the Administering Authority). Note 1 to the Annual Accounts, page 27 provides a description of the Fund.

The Note sets out information in relation to the Fund's regulatory environment, funding, benefits and membership.

Overview of Fund Membership

Current membership of the Fund is 10,961 of which 4,376 are actively contributing and 3,707 are in receipt of pension benefits. The following chart provides a summary of the trends in membership:



The chart on the previous page demonstrates that although there has been a relatively static position in relation to active contributing membership, there has been a continuing rise in the number of pensioners. Since 2014 the total membership has increased by 1,111 members (a 12% increase overall). During this period the number of pensioners and their dependents has increased by 28%, and the number of active contributing members has increased by 0.2%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively as the fund matures. This was considered when the last full investment review was undertaken.

Financial Performance

The Financial Statements for the Fund are set out from page 27.

Key Figures from these are set out below:

	2017/18 £'000	2018/19 £'000
Net (Withdrawals) from Dealings with Members	(2,579)	(3,610)
Net Return on Investments	41,486	58,454
Net Increase/(decrease) in the Fund during the Year	30,190	48,316
Closing Net Assets of the Scheme	684,583	732,899

These highlight two key messages in relation to the Financial Position of the Fund:

- **Strong financial returns from Fund Managers have resulted in an increase of £48.3m in Net Assets**
- **A Net Withdrawal position of £3.6m in relation to dealing with Fund Members**

The strong asset position, along with the 2017 Triennial Valuation of funding levels, demonstrates that the Fund is well placed to meet its future pension and other benefit liabilities.

The slightly increasing net withdrawal position supports the trend that is seen in the membership chart as outlined on page 3.

The changes in legislation around what pensioners are able to do with their pension benefit entitlements have increased individual freedom to withdraw from the Fund potentially triggering significant transfer movements. The fund has not however seen any significant withdrawals from the fund as a result of this legislation and continues to monitor this position.

Governance and Decision Making

The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015 introduce new statutory governance framework for Scottish LGPS funds , setting out the mandatory role of the Scheme Manager and the establishment of the National Scheme Advisory Board and local Pension Boards to improve governance arrangements. The regulations require the Board and Committee to meet jointly at least 4 times annually.

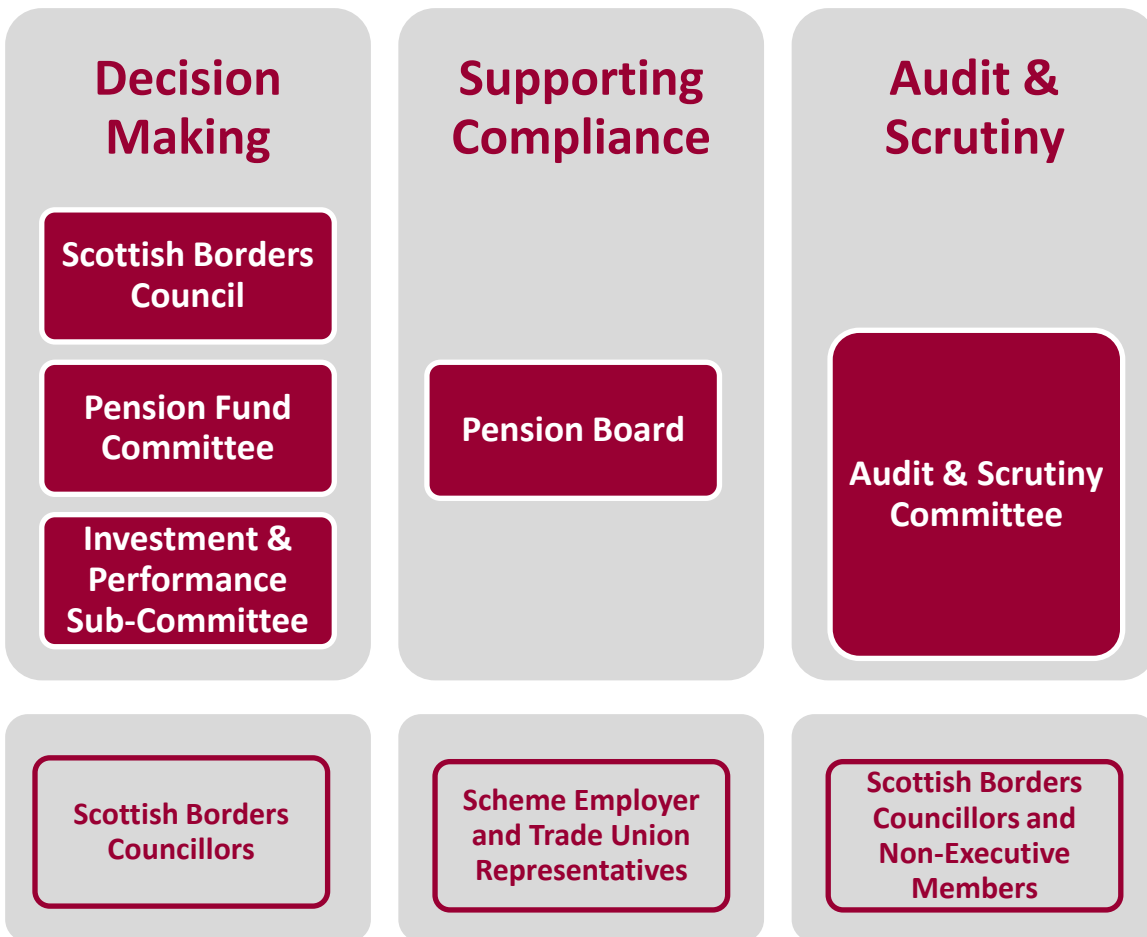
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

- a) securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify.

This body is made up of four scheme employer representatives and four trade union representatives.

The membership of the Pension Fund Committee comprises elected members from the administering authority, Scottish Borders Council.

The governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2019 can be found on pages 16 to 22.

Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 22 June 2017 reflecting the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2018/19 training programme was developed. Training was delivered to all members of both the Pension Fund Committee and the Pension Fund Board and covered the following areas:

- Financial Markets and Investment Products
- Role of Custodian
- General Pension Fund regulatory environment
- LGPS Benefits structure

The Training Policy sets out a target for all members of the Pension Fund Committee and Pension Fund Board in relation to attendance at Committee meetings and training events. The 2018/19 performance is set out below.

<i>Pension Fund Committee</i>	Number of Committee Members Attending	
% Attendance	Committee	Training
100% (4 sessions or more)	2	3
75% (3 sessions)	3	1
50% (2 sessions)	0	1
≤ 25% (1 or no sessions)	2	2

<i>Pension Fund Board</i>	Number of Board Members Attending	
% Attendance	Committee	Training
100% (4 sessions or more)	2	3
75% (3 sessions)	3	2
50% (2 sessions)	0	2
≤ 25% (1 or no sessions)	3	1

The Policy requires members of the Pension Fund Board and Committee to attend at least two meetings per year and two training events. 72% of Members of the Pension Fund Committee met the training and attendance targets set in the Training Policy. 62% of the Pension Fund Board met the attendance target and 87% met the training target. The Training policy also from 2017/18 required all members of the Committee and Board to undertake the Pension Regulator Trustee Toolkit within 6 months of becoming a member. The toolkit has been completed by 100% of the Committee and 75% of the Board.

The Fund is able to demonstrate full compliance with the relevant best practice standards and this is set out in the Governance Compliance Statement from page 18.

Fund's Aims and Objectives

Primary Aim of the Fund

- To provide for members' pension and lump sum benefits on their retirement or for their dependents' benefits on death before or after retirement, on a defined benefits basis.

Funding Objectives

- 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 ensure levels of **employer contribution that are stable**

Pensions Administration

- Deliver a **High Quality Pension Service to Members.**

Governance

- Ensure that Scottish Borders Pension Fund is **managed effectively, transparently and remains compliant.**

The Fund approved a Business Plan for the period covering 2018/19 – 2020/21 on 14 June 2018 and this presented the action plan associated with supporting the delivery of these aims and objectives. The following key actions were completed during 2018/19.

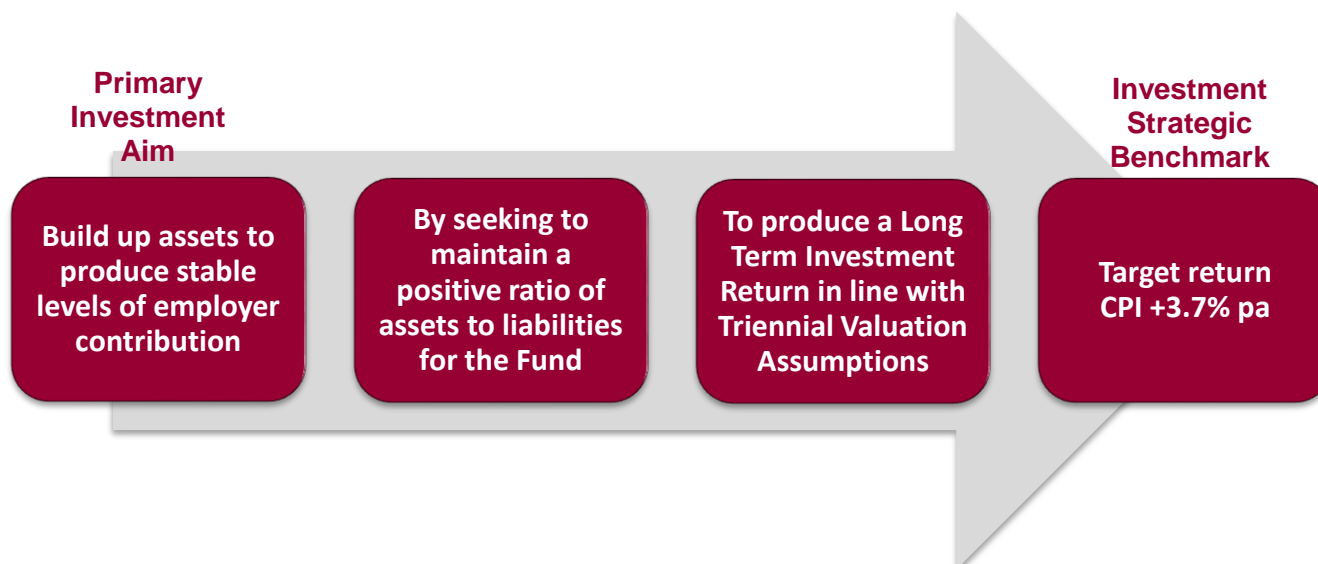
- **2017/18 Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications**
- **Review of Funding Strategy Statement and asset allocation completed following 2017 triennial valuation**
- **Review of AVC provider and provision completed**
- **Strong progress made in Private Credit and Infrastructure asset categories per Investment strategy**
- **Tender process completed for Fund Actuary resulting in appointment of Hymans Robertson**

A full copy of the Business Plan can be found at www.scotborders.gov.uk/pensions.

MANAGEMENT COMMENTARY

Investment Strategy

The Statement of Investment Principles (SIP) approved on the 13 June 2019 sets out the Fund's current Investment Strategy and a copy of this document can be found at: www.scotborders.gov.uk/pensions. An extract of the key elements of the SIP is shown below:



The following table indicates the actual position at 31 March 2019 in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/18 %	Asset Allocation at 31/3/19 %	Strategic Benchmark %
UK Equity	15.2	14.4	10.0
Global Equity	43.0	33.9	30.0
Bonds	15.2	21.2	15.0
Alternatives	11.9	13.5	17.5
Property	14.0	13.5	15.0
Infrastructure	0.6	2.9	12.5
Cash	0.1	0.6	0.0
Total	100.0	100.0	100.0

As can be seen from the table above there has been a reduction in the allocation to equities during the year. Despite this the Fund continues to run overweight in equities due to the continued growth of equities and the ongoing work to transfer funds into Infrastructure and Private Credit. To reduce the Funds equity risk some of the overweight position in equities has been disinvested and is being held in the Bonds portfolios until the infrastructure and private credit portfolios are in a position to draw down.

The strategic benchmark represents the asset allocation as approved in September 2018 and contained with the 2019 Statement of Investment Principles.

MANAGEMENT COMMENTARY

Review of Investment Performance

2018/19 in numbers

- Strong 3 year annualised investment performance of 11.3%, 1.3% above benchmark

- Strong 1 year performance to March 2019 with investment returns of 7.6% in the year compared to a benchmark of 7.7%
- Good progress achieved in implementation of the revised asset strategy

Key Success 2018/19

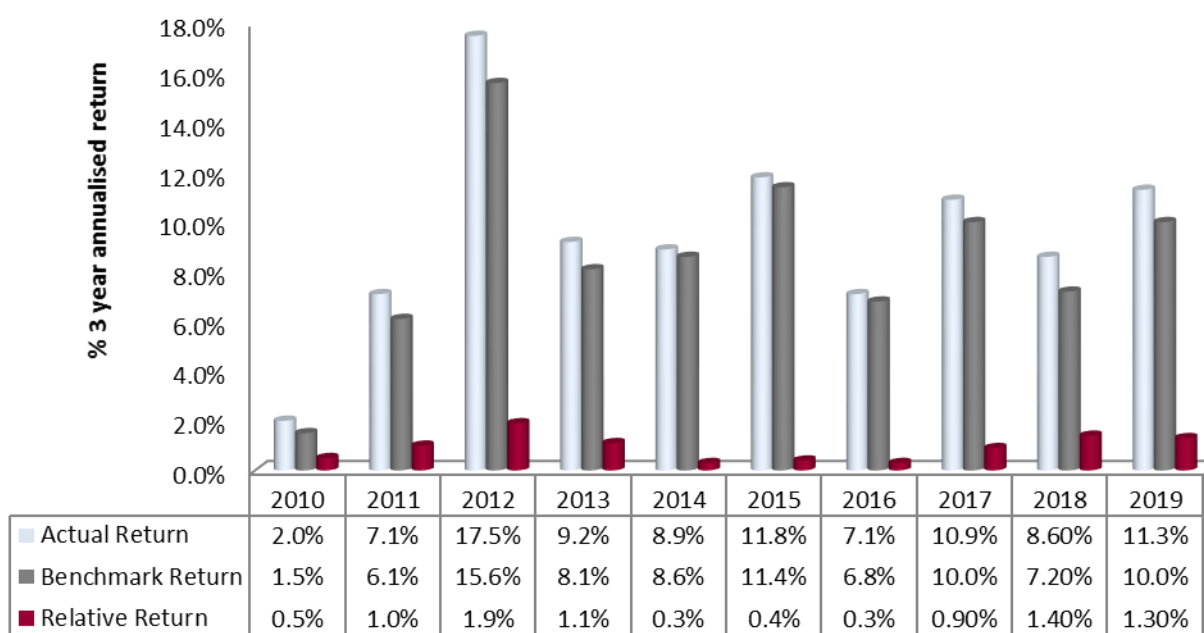
Investment Markets

Equities experienced a volatile period during the end of the calendar year. Quarter 1 2019 however saw most funds rebound to provide positive returns. The weakness of sterling against most major currencies however continues to affect the performance of Fund.

Investment Performance

The Fund's performance against benchmark over the past 10 years is highlighted in the chart below. This chart demonstrates that the rolling 3 year annualised relative return (i.e. Fund's return achieved compared with the benchmark) since 2010 has been positive. On average the fund has returned relative out performance against bench mark of 0.91% per annum over the last 10 years.

3 Year Annualised Returns ending 31 March



The Fund achieved favourable returns in 2018/19, with Fund Managers producing a positive return of 7.6% against a benchmark of 7.7%. Global equities provided the highest out performance against benchmark, despite a dip in values in the final quarter of the year.

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

The following table provides an analysis of how the Fund's investments performed against the Funds Benchmark.

Return on Investment as at 31/3/2019	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund	7.6	7.7	11.3	10.0
Global Equities	12.6	12.8	17.1	15.3
UK Equities	6.0	6.4	10.0	9.5
Bonds	2.0	4.0	4.3	4.1
Alternatives	5.0	4.8	5.0	4.6
Property	5.5	4.9	5.6	5.8
Cash	-	-	-	-

The performance of the Fund overall was under its benchmark by 0.1% in the rolling 1 year but exceeded the rolling 3 year benchmark. The rolling 1 year performance was aided by strong performance from Baillie Gifford and Morgan Stanley in their global mandates.

Top 20 Direct Equity Holdings at 31 March 2019

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

MANAGEMENT COMMENTARY

Funding Position

2017 Valuation

- **114% Funding Level for the Fund**
- **Stable Common Employer Contribution Rates at 18%**

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. A copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

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.

	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 47, 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 3 years.

Valuation for Statutory Accounts at 31 March 2019

Note 19 to the Statement of Accounts on page 45, contains the actuarial present value valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £209m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2017 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the fund. The full version of the actuary report and the current Funding Strategy is available via the Pension Funds website:

<http://scottishborderscouncilpensionfund.org/>

MANAGEMENT COMMENTARY

Pensions Administration Update

2018/19 in Numbers	<ul style="list-style-type: none">• 17 Scheme Employers• £22.8m of Pension and Other Benefits paid during year• £19.4m of Contributions Received from 4,376 Active Members and their Employers• 6,605 Benefits Statements issued
Key Successes 2018/19	<ul style="list-style-type: none">• Launch of Scottish Borders Council Pension Fund Website• Processing of Pension payments from Business World implemented from 1st April 2017, fully implemented 2018/19• Successful training and development of new staff following staff retirements within the team• 97% of contributions received from Employer Bodies on time

Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2018/19 and covered the requirements for the year end returns, for results of the triennial valuation and an overview of investments. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the Pension Fund Board.

Membership

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

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

There are 17 employer organisations within the Fund including the Council itself and membership by employer is analysed over the page.

Membership Details as at 31 March 2019	Number of Contributors	Pensioners	Deferred Pensioners	Total
Scheduled Bodies:				
Scottish Borders Council	3,269	3,327	2,440	9,036
Borders College	162	70	80	312
Visit Scotland (Scottish Borders)	1	7	8	16
	3,432	3,404	2,528	9,364
Active Admitted Bodies:				
Scottish Borders Housing Association	80	95	73	248
LIVE Borders	152	45	58	255
SBCares	669	112	178	959
Jedburgh Leisure Facilities Trust	2	1	1	4
L&B Community Justice Authority	-	2	7	9
Amey Community Limited (TUPEE Staff only)	4	6	4	14
CGI (TUPEE Staff only)	37	2	5	44
	944	263	326	1,533
Admitted Bodies with No Active Contributing Members:				
Gala Youth Project	-	1	1	2
Scottish Borders Careers	-	1	3	4
BC Consultants	-	15	16	31
Others	-	23	4	27
	-	40	24	64
Total	4,376	3,707	2,878	10,961

Member Engagement

The Scheme Employer Liaison meeting was held during 2018/19 and covered the requirements for the year end returns, for results of the triennial valuation and an overview of investments. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the Pension Fund Board.

Pensions Administration Strategy

The Fund's Pensions Administration Strategy was approved in September 2018. This sets out scheme employer and administering authority roles and responsibilities and defines the service performance standards.

How have we done?

A comprehensive report on Pensions Administration performance for 2018/19 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 13 June 2019 and a copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

Administering Authority Performance Measures

Many of the performance standards have been met in 2018/19 and are comparable with the positive performance in the previous year. The target performance days for responding to general queries was 5 days and almost 100% of queries were replied to within this new target.

Service Standard - Estimates

Standard	Volume of Requests	Target Response	2018/19 % on Target
Estimates – Transfer In	98	20 Days	47.96%
Estimates – Transfer Out	96	20 Days	56.25%
Estimate – All Other	1,036	10 Days	83.01%
Total Estimates	1,230		

Service Standard – Query Response Turnaround

Standard	2017/18		2018/19	
	Volume of Queries	% on Target	Volume of Queries	% on Target
Query responses – within 5 working days	1999	99.75%	3,323	99.64%
Benefit Statement queries – within 20 working days	67	100%	232	99.57%
Total	2,066		3,555	

Service Standard - Other

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	Yes
Benefit Statements	by end of August	Yes

There has been no significant change in the response times for queries, even with a marked increase in the number of queries having been received over the year.

Employer Performance Measures

Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	637	90%	100%
Retirement info – at least 20 working days before	227	90%	100%
Early leaver notification – within 20 working days	536	90%	100%
Death in service notification – within 10 working days	12	90%	100%

During 2017/18 Scottish Borders Council implemented a new ERP system, including a payroll module, this led to a marked reduction in performance over this period. As can be demonstrated by the above the performance standards are back to the previous high standard with information being passed to the Pensions Administration Team in accordance with the set standards in all instances.

Service Standard – Pension Contribution Payments

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

Employer Body	Number of Monthly Payments Received		
	By Target Date (19 th of Month)	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%
LIVE Borders	12	-	100%
AMEY Community Limited	12	-	100%
SBCares	12	-	100%
CGI	12	-	100%

97% of the payments were received the target date within the target date or within a maximum of 4 calendar days. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.

Councillor David Parker
Chairman
Pension Fund Committee

Tracey Logan
Chief Executive
Scottish Borders Council

David Robertson, CPFA
Chief Financial Officer
Scottish Borders Council

26 September 2019

GOVERNANCE

Annual Governance Statement 2018/19

Introduction

The Local Government Pension Scheme (Scotland) Regulations 2014 require 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 13 June 2019) which is available on the website www.scotborders.gov.uk/pensions.

The 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 set up for the Scottish Borders geographic area. The Council has acknowledged its responsibility for ensuring that there is a sound system of governance (incorporating the systems of internal control) and this is reflected in the Council's governance arrangements.
- b) The Council has delegated its responsibilities as Scheme Manager to the Pension Fund Committee. The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund. The overall responsibility of ensuring there is a sound system of governance remains with the Chief Executive.
- c) The Pensions Board meets jointly with the Committee, and formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business Plan covering the period 2018/19 – 2020/21 to improve planning and monitoring of the performance of the Fund and to demonstrate the "Myners Principle" relating to effective decision making. The business plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that was managed effectively, transparently and was compliant. The Business plan will ensure actions are included to address any 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, scheme of administration, 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, regular reviews of investment manager reports that measure performance against agreed targets, and independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services 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 Chief Financial Officer (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 pensions' 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 and the detail of this is set out in the Governance Compliance Statement 2018/19, (pages 18 – 22).

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

The Chief Officer Audit and Risks opinion is that based on Internal Audit reviews and knowledge, the systems of internal control within Scottish Borders Council Pension Fund are operating satisfactorily, and governance and risk management arrangements are effective.

Improvement Areas of Governance

The areas of improvement completed during 2018/19 were the following;

- a) Development and approval of Responsible Investment Policy
- b) Completion of annual assessment of Investment Advisor, Custodian and Actuary.

The review has identified some areas where further improvements for 2019/20 that can be made to enhance the existing governance arrangements:

- a) Development and approval of cessation and Discretion Policy.
- b) Develop and implement an annual monitoring of Responsible Investment Policy.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control, governance and risk management. The annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Policy and Compliance Statement (pages 18 – 22).

Councillor David Parker
Chairman
Pension Fund Committee
26 September 2019

Tracey Logan
Chief Executive
Scottish Borders Council

GOVERNANCE

Governance Compliance Statement 2018/19

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

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 of 7 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 8 members, 4 employer representatives and 4 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 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 and has remit set out in the Scheme of Administration. This Sub-Committee</p> <p>Membership of the Sub-Committee is comprised of the 7 elected members from the Committee and 2 (non-voting) members from the Board.</p>

Principle		Full Compliance	Comments
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 Committee for approval. 2 members from the 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 Board and Committee meets jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Board. The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity.
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and 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. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive papers and access meetings in the same way.

Principle		Full Compliance	Comments
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 Council's Code of Governance along with Member 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 6 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 Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.
Voting			
A	The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution
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	The 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	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.

Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meeting of the Committee and Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits	Yes	Investment Sub-Committee meets every four months in between main 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	Pension Board formally provides for the 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 detailed in Scheme of Administration.

Principle	Full Compliance	Comments	
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 that the Committee as having a remit which covers all matters relating the Council's role as the 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.
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 in 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 Council website.

GOVERNANCE

Risk Management Statement

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 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 2018 and subsequent reviews have followed the Council's cycle, as shown below:

Level of risk (Inherent risk score)	Reporting and Review Cycle
RED -Very High (15-25)	3 monthly reviews of action progress throughout the year
AMBER – High (6-12)	6 monthly review
GREEN – Low (1-5)	Annual review

The headings under which the Council consider risk are set out below 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	19	24

The one risk that remains at red assessment i.e. high risk as at 31 March 2019 are:

- **Legislation and other regulatory framework changes impacting on the Fund**

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Scottish Borders Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer.
- Manage the affairs of the Fund to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts of the Fund (in Scotland, the audited accounts must be laid before a meeting of the Authority within two months of receipt of the audit certificate)

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014, as updated by Scottish Ministers, the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) and supporting guidance issued by the Scottish Government.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice on Local Authority Accounting

The Chief Financial Officer has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Scottish Borders Council Pension Fund as at 31 March 2019, and of its income and expenditure for the year ended 31 March 2019.

Councillor David Parker
Chairman
Pension Fund Committee

David Robertson, CPFA
Chief Financial Officer
Scottish Borders Council

26 September 2019

**SCOTTISH BORDERS COUNCIL PENSION FUND
STATEMENT OF ACCOUNTS 2018/19
FUND ACCOUNT**

2017/18 £'000		2018/19 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
19,365	Contributions	19,385	7
245	Transfers in from other pension funds	1,262	8
19,610		20,647	
(21,548)	Benefits	(22,794)	9
(641)	Payments To And On Account Of Leavers	(1,463)	10
(22,189)		(24,257)	
(2,579)	Net Additions/(Withdrawals) from Dealings with Members	(3,610)	
(8,717)	Management expenses	(6,528)	11
	Return on Investments:		
8,195	Investment Income	13,314	12
33,717	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	45,423	14A
(426)	Taxes on Income	(283)	
41,486	Net Return on Investments	58,454	
30,190	Net Increase/(Decrease) in the Fund during the Year	48,316	
654,393	Opening Net Assets of the Scheme	684,583	
684,583	Closing Net Assets of the Scheme	732,899	

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.

SCOTTISH BORDERS COUNCIL PENSION FUND NET ASSETS STATEMENT as at 31 March

2017/18 £'000		2018/19 £'000	Notes
685,681	Investment Assets	731,048	14
(742)	Investment Liabilities	-	14
684,939	Total net investment	731,048	
	Current Assets & Liabilities		
1,577	Current Assets	3,246	21
(1,933)	Current Liabilities	(1,395)	22
(356)		1,851	
684,583	Net Assets of the fund available to fund benefits at the period end	732,899	

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 2019 and the audited accounts were authorised for issue on 26 September 2019.

David Robertson CPFA
Chief Financial Officer
26 September 2019

NOTES TO THE STATEMENT OF 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, which for 2018/19 were 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 2018/19 ranged from 15.5% 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 2019. From 1 April 2015 these contributions will be based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.

C) BENEFITS

Prior to 1 April 2015, pension benefits under the LGPS have been based on final pensionable pay and length of pensionable service as summarised below:

	Service pre 1 April 2009	Service post 31 March 2009	Services post 31 March 2015
Pension	Each year worked is worth 1/80 th x final pensionable salary	Each year worked is worth 1/60 th x final pensionable salary	Each year worked is worth 1/49 th x pensionable salary
Lump Sum	Automatic lump sum of 3 x annual pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum Part of the pension may be exchanged for a lumps sum. The conversion rate is £12 of lump sum for each £1 surrendered	No automatic lump sum. Part of the pension can be exchanged for a lump sum. The conversion rate is £12 is paid for each £1 of pension given up.
	The lump sum cannot be greater than 25% of the capital value of the pre 2009 and post 2009 pension rights		

Benefits from the 1 April 2015 which build up on a career average basis are revalued annually in line with rises in the Consumer Price Index.

Additionally, the Scheme provides a range of guaranteed inflation linked benefits including early payment of pension and lump sum on ill health or redundancy grounds and death and survivor benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

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

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, these will include stamp duty on property.

Net Assets Statement

Valuation of Investments

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

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the closing business day.
- Unquoted investments – Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement
- Pooled investment vehicles – are valued at bid price on the closing business day.

The processes of the fund managers, who are listed in Note 14c, page 38 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 the 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 contract 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 that are subject to minimal risk of change in value.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19, page 46).

Additional Voluntary Contributions (AVCs)

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

Accounting Standards that were issued but not yet adopted.

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

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICES

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2019 was £12.9m.

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary (currently Hymans Robertson), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 20 page 46. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking 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 2019 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)	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> - A 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £9.2m - A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £8.1m - A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1.7m, and - A 0.25% increase in assumed life expectancy would increase the deficit by £3.9m <p>Source – <i>Triennial Valuation 2017</i></p>
Portfolio of Level 3 assets held	Level 3 assets are those which do not have a 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 £186.9m and include Private Credit, Property, Infrastructure and Alternatives. There is a risk that this investment may be under- or overstated in the accounts.

6 EVENTS AFTER THE REPORTING DATE

There are no known events since the 31 March 2019 which directly affect these accounts.

7 CONTRIBUTIONS RECEIVABLE

2017/18				2018/19		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
13,631	4,493	18,124	Normal	14,348	4,601	18,949
1,209	-	1,209	Special/Pension Fund Strain	406	-	406
	32	32	Additional Voluntary	-	30	30
14,840	4,525	19,365	Total	14,754	4,631	19,385

2017/18 £'000		2018/19 £'000
13,317	Administering Authority	14,121
746	Scheduled Bodies	738
5,302	Admitted Bodies	4,526
19,365		19,385

8 TRANSFERS IN

There were no group transfers in to the scheme during 2018/19 or 2017/18 and the total of £1.262m (2017/18: £0.245m) represents the total of transfer values in respect of individual members joining the scheme.

9 BENEFITS PAYABLE

2017/18 £'000		2018/19 £'000
16,794	Pension Payments	17,967
4,128	Commutation and lump sum retirement benefits	3,948
626	Lump Sums death benefits	879
21,548		22,794

2017/18 £'000		2018/19 £'000
20,105	Administering Authority	20,958
295	Scheduled Bodies	373
1,148	Admitted Bodies	1,463
21,548		22,794

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £'000		2018/19 £'000
64	Refunds to members leaving service	110
577	Individual Transfers	1,353
641		1,463

11 MANAGEMENT EXPENSES

2017/18 £'000		2018/19 £'000
292	Administrative costs	391
8,192	Investment management expenses	5,848
233	Oversight and governance costs	289
8,717	Total	6,528

11(a) INVESTMENT MANAGEMENT EXPENSES

2017/18 £'000		2018/19 £'000
3,787	Management Fees	4,149
75	Performance Related Fees	102
65	Custody Costs	48
4,196	Transaction Costs	1,063
69	Other Fees	486
8,192	Total	5,848

12 INVESTMENT INCOME

2017/18 £'000		2018/19 £'000
4,459	Dividends from equities	4,595
1,233	Income from Pooled Investment vehicles	3,642
2,476	Income from Pooled Property Investment vehicles	4,824
27	Interest on Cash Deposits	253
8,195		13,314

13 OTHER FUND ACCOUNT DISCLOSURES

13(a) – EXTERNAL AUDIT COSTS

In 2018/19 the agreed audit fee for the year was £20,580 (2017/18 £19,990). The external auditor is Audit Scotland.

14 INVESTMENTS

Market Value at 31 March 2018 £'000		Market Value at 31 March 2019 £'000
	Investment Assets	
236,164	Equities	181,533
282,533	Pooled Investments	371,951
95,448	Pooled Property Investments	98,428
2,313	Private Equity/Infrastructure	21,450
49,685	Diversified Alternatives	51,678
6	Derivative Contracts	-
17,805	Cash Deposits	4,619
1,246	Investment Income Due	1,357
481	Amounts receivable for sales	32
685,681	Total Investment Assets	731,048
	Investment Liabilities	
(742)	Amounts payable for purchases	-
684,939	Net Investment Assets	731,048

Alternative asset portfolio at 31 March 2019

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £51.7m at 31 March 2019, 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

14 (A) RECONCILIATION OF MOVEMENT IN INVESTMENT AND DERIVATIVES

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

	Opening Market Value £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value £'000
Equities	236,163	47,603	(113,686)	11,453	181,533
Pooled Investments	282,532	80,221	(18,963)	28,161	371,951
Pooled Property Investments	95,449	1,141	(35)	1,873	98,428
Private Equity/Infrastructure	2,313	19,229	(557)	465	21,450
Diversified Alternatives	49,685	-	(1151)	3,144	51,678
Derivative Contracts	6	62	(152)	84	-
	666,148	148,256	(134,544)	45,180	725,040
Other Investment Balances					
Cash Deposits	17,805			395	4,619
Amount receivable for sales	482			(1)	32
Investment Income due	1246			-	1,357
Amount Payable on Purchase	(742)			3	-
Net Investments	684,939			45,423	731,048

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 Private credit.

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 2019. Each of the investments comprises units in a managed fund.

Value as at 31 March 2019	£'000
M&G Alpha Opportunities Fund	110,038
M&G Index Linked	45,511
Morgan Stanley Global Brands Fund	99,849
Blackrock – Long Lease property	60,629
LGT Crown SBC Segregated Portfolio	51,678
UBS Property	38,362
UBS UK Passive Equities	67,559

14 (B) – ANALYSIS OF INVESTMENTS

31 March 2018 £'000		31 March 2019 £'000
	Equities	
	UK	
48,188	Quoted	43,888
	Overseas	
187,924	Quoted	137,607
236,112		181,495
	Pooled Funds – additional analysis - Unquoted	
	UK	
34,622	Fixed Income Unit Trust	45,549
65,502	Equity Unit Trust	68,940
	Overseas	
86,029	Equity Unit Trust	99,850
64,570	Hedge Funds	110,038
	UK & Overseas	
49,686	Diversified Alternatives	51,678
31,809	Private Credit Funds	47,611
332,218		423,666
	Pooled Property Investments	
85,510	UK Pooled Property Investments	88,408
9,990	Overseas Pooled Property Investments	10,020
95,500		98,428
	Private Equity/Infrastructure	
1,478	UK Venture Capital	18,999
834	Overseas Venture Capital	2,451
2,312		21,450
	Investment Assets	
8	Derivative assets	-
17,807	Cash	4,619
1,246	Investment income due	1,357
481	Amounts receivable from sales	32
685,684	Total Investment Assets	731,048
	Investment Liabilities	
(2)	Derivative liabilities	-
(743)	Amounts payable on purchase	-
(745)	Total Investment liabilities	-
684,939	Net Investment Assets	731,048

14 (C) INVESTMENT ANALYSED BY FUND MANAGER

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 2018/19 continued to make investments into infrastructure via collaborative working with Lothian Pension Fund. As at 31 March 2019 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-18				31-Mar-19	
£'000	%			£'000	%
63,853	9.3	UBS	Pooled Fund -UK Equities	67,559	9.2
39,975	5.8	Baillie Gifford	UK Equities	38,060	5.2
157,511	23.0	Baillie Gifford	Global Equities	148,348	20.2
50,877	7.4	Harris	Global Equities	-	0
86,029	12.6	Morgan Stanley	Pooled Fund - Global Equities	99,850	13.6
69,570	10.1	M&G	Pooled Fund - Diversified Income	110,038	15.0
34,621	5.1	M&G	Pooled Fund - Bonds	45,512	6.2
36,617	5.4	UBS	Pooled Fund -Property	38,463	5.2
59,761	8.7	Blackrock	Pooled Fund – Property	60,629	8.2
49,685	7.3	LGT	Pooled Fund - Alternatives	51,678	7.0
15,969	2.3	Partners Group	Pooled Fund – Private Credit	19,867	2.7
15,840	2.3	Permira	Pooled Fund – Private Credit	27,745	3.8
2,333	0.4	KKR	Infrastructure	2,407	0.3
1,478	0.2	Infrared	Infrastructure	1,646	0.2
-		Dalmore	Infrastructure	6,676	0.9
-		Brookfield	Infrastructure	1,522	0.2
-		Macquarie	Pooled Fund -Infrastructure Debt	9,199	1.5
820	0.1	Internal	Internally Managed Cash & Investments	1,849	0.6
684,939				731,048	

The benchmarks and performance targets for each manager as at the 31 March 2019 are contained in the Statement of Investment Principles published on the Pension fund website.

Fund Performance

The total Fund return for the year was 7.6% with a relative return over benchmark of 7.7%.

Over three years the Fund has generated an annualised return of 11.3% per annum, including the currency hedging, with a relative return over benchmark of 1.3% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

14 (D) STOCK LENDING

As at 31 March 2019 no stock had been released to a third party under a stock lending arrangement.

14 (E) PROPERTY HOLDINGS

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

15 ANALYSIS OF DERIVATIVES

The Funds approach to derivatives is to allow individual managers to decide to participate in derivative contracts subject to limits set out in their investment management agreements. The fund holds cash assets to allow for cashflow 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	31	JPY	(5)		0
Open forward currency contracts at 31 March 2019						0
Net forward currency contracts at 31 March 2019						0
Open forward currency contracts at 31 March 2018						(2)
Net forward currency contracts at 31 March 2018						6

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.

- 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.
- 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.
- 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.

16(A) FAIR VALUE HIERARCHY

Values as at 31 March 2019	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1 £'000	level 2 £000's	level 3 £000's	
Designated as fair value through fund account	504,489	33,631	186,919	725,039
Loans & receivables	5,977	32	-	6,009
Net Investment Assets	510,466	33,663	186,919	731,048
Values as at 31 March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	level 1 £'000	level 2 £000's	level 3 £000's	
Designated as fair value through fund account	481,572	35,852	148,725	666,149
Loans & receivables	9,543	9,975	16	19,534
Financial liabilities at fair value through fund account	-	(744)	-	(744)
Net Investment Assets	491,115	45,083	148,741	684,939

16 (B) RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2018 £'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 2019 £'000
Alternatives	49,685	-	-	-	1,993	-	51,678
Overseas Equity	834	-	1,633	(257)	102	138	2,450
Private Credit	31,809	-	17,089	(2,544)	1,257	-	47,611
UK Property	64,919	-	-	-	1,262	-	66,181
Overseas Venture Capital	1,478	-	17,754	(300)	67	-	18,999
Total	148,725	-	36,476	(3,101)	4,681	138	186,919

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

Purchases and sales during the year reflect the implementation of the revised Investment Strategy. Unrealised and realised gains and losses are recognised in the changes in value of investments line of the fund account

SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having considered historical data and current market trends, and consulted with independent advisors, the fund has determined that 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 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Alternatives	4.6%	51,678	54,055	49,301
Overseas Equity	22.0%	2,450	2,989	1,911
Private Credit	8.0%	47,611	51,420	43,802
UK Property	12.0%	66,181	74,123	58,239
Overseas Venture Capital	12.0%	18,999	21,279	16,719
Total		186,919	203,866	169,972

17 (A) 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 account period.

31 March 2018				31 March 2019		
Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000		Fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000
			Financial assets			
236,163	-	-	Equities	181,533	-	-
282,532	-	-	Pooled Investments	371,951	-	-
95,449	-	-	Pooled Property Investments	98,428	-	-
2,313	-	-	Infrastructure	21,450	-	-
49,685	-	-	Diversified Alternatives	51,678	-	-
8	-	-	Derivative Contract	-	-	-
-	17,805	-	Cash	-	4,619	-
1,246	-	-	Other Investment balances	-	1,357	-
481	-	-	Debtors	-	32	-
667,877	17,805	-		725,040	6,008	-
			Financial Liabilities			
-	-	-	Derivative Contract	-	-	-
-	-	-	Other investment balances	-	-	-
-	-	(743)	Creditors	-	-	-
-	-	(743)		-	-	-
667,877	17,805	(743)	Total	725,040	6,008	-
	684,939				731,048	

17 (B) NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018 £000		31 March 2019 £000
	Financial assets	
28,341	Designated at fair value through profit & loss	45,103
96	Loans & receivables	398
	Financial Liabilities	
(11)	Fair value through profit & Loss	78
(411)	Financial liabilities at amortised costs	(156)
28,015	Total	45,423

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 23. 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.

A) 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.

(i) 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 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	11.2
Property	9.9
Alternatives	13.2
Cash	0.9

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 19 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	105,619	20.2	126,933	84,305
Global Equities	248,198	20.5	299,078	197,317
UK Bonds	45,512	11.2	50,617	40,406
Property	99,092	9.9	108,943	89,242
Alternatives	230,778	13.2	261,311	200,246
Cash	1,849	0.9	1,866	1,832
Total Assets	731,048		848,748	613,348

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

(ii) 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 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 2018 and 31 March 2019 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 2018 £'000	At 31 March 2019 £'000
Cash and Cash Equivalents	17,807	7,198
Fixed Interest Securities		-
	17,807	7,198

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 19 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	7,198	72	(72)

(iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows 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.

The following table summarises the Fund's currency exposure at 31 March 2019:

Currency exposure by asset type	As 31 March 2019 £'000
Overseas Equities	237,457
Diversified Bonds	110,038
Alternatives	51,678
Property	10,020
Venture Capital	2,451
Total	411,644

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with KPMG the likely volatility associated with foreign exchange movements on an individual currency basis is shown on the table on the following

page. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket'.

Currency	Value as at 31 Mar 19 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	632	10.61	700	566
Brazilian Real	3,038	15.80	3,518	2,558
Canadian Dollar	1,363	9.50	1,492	1,234
Danish Krone	1,529	8.44	1,658	1,400
EURO *	26,539	8.46	28,784	24,294
Hong Kong Dollar	7,512	9.20	8,203	6,820
Japanese Yen *	8,791	12.65	9,903	7,679
Norwegian Krone	1,611	10.39	1,779	1,444
South African Rand	5,861	15.09	6,745	4,976
Swedish Krona	1,840	10.31	2,029	1,650
Swiss Franc	2,727	10.98	3,027	2,428
US Dollar	139,430	9.35	152,470	126,390
Total Currency *	200,873		220,308	181,439

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

B) CREDIT RISK

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

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

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2019, including current account cash, was £2.5m (31 March 2018: £0.64m). This was held with the following institutions:

	Rating	Balance at 31 March 2018 £'000	Balance at 31 March 2019 £'000
Money Market Accounts			
Aberdeen Standard	AAA	5	-
Standard Life	AAA	5	-
Blackrock	AAA	5	-
Federated	AAA	5	-
Bank Current Accounts			
Bank of Scotland	A+	620	2,580
Northern Trust	AA		4,618
Total		640	7,198

C) LIQUIDITY RISK

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2019, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

19 FUNDING ARRANGEMENTS

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

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

The Funding Strategy Statement

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: www.scotborders.gov.uk/pensions. Key elements of the FSS are the Funding Objectives and Funding Strategy for the Pension Fund and these have been extracted and 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 contribution 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.

2017 Actuarial Valuation

The 2017 Actuarial Valuation was undertaken for the Fund as at 31 March 2017 (the Executive report can be seen in Annex 1 with the full report available on the Scottish Borders Council Pension Fund website) and was completed during the financial year 2017/18 by the then actuaries, Barnett Waddingham. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014.

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

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

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

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

Valuation Assumptions

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

Financial Assumptions

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

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

Mortality assumptions

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

Commutation Assumption

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

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	
	2017/18	2018/19
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%

* The Leisure Trust Common Pool rate was made up with BSLT and Jedburgh Leisure Trust. The amalgamation of BSLT and the Council Culture services into LIVE Borders in 2016 however 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.

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.

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 2017 £m	31 March 2018 £m	31 March 2019 £m
Present value of the defined benefit obligations	(907)	(844)	(941)
Fair Value of Fund Assets* (bid value)	653	685	733
Net Asset/(Liability)	(254)	(159)	(209)

The obligations figure above include a £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 2017	At 31 March 2018	At 31 March 2019
	% p.a.	% p.a.	% p.a.
Discount Rate	2.7	2.55	2.4
Pay Increases – Long Term	3.7	3.3	3.5
Pension Increases	2.7	2.3	2.5

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 20) 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 2018 £'000	As 31 March 2019 £'000
Short term debtors		
Contributions Due – Employees	335	92
Contributions Due - Employers	985	294
	1,320	386
Transfer value receivable (joiners)	53	193
Sundry Debtors	-	10
Prepayments	-	78
Total	1,373	667
Cash Balances		2,579
Total	1,373	3,246

22 CURRENT LIABILITIES

Current Liabilities	As 31 March 2018 £'000	As 31 March 2019 £'000
Transfer value payable (joiners)	93	499
Sundry Creditors	1,500	565
Benefits payable	340	331
Total	1,933	1,395

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 2019 was £1.194m (2017/18 £1.104m). During the year contributions in totalled £0.283m, while payments out of the AVC fund totalled £0.253m. 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 £0.62xm (2018: £1.98m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.004m (2018: £0.004m). The Council charged the Pension Fund £0.263m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2018 £'000	2019 £'000
Due (to)/from Scottish Borders Council	1,037	(343)

Governance

All members of the Pension Fund Committee were active member of the pension fund during 2018/19. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

25 (A) KEY MANAGEMENT PERSONNEL

The key management personnel of the fund is Scottish Borders Council Chief Financial Officer. Total remuneration payable is set out below

31 March 2018 £000's		31 March 2019 £000's
87	Short-term benefits	89
-	Post-employment benefits	-
2	Other long-term benefits	2
-	Termination benefits	-
-	Share-base payments	-
89	Total	91

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

26(A) 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.

26(B) 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 due to ongoing legal appeals and clarification of what has to be included 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. The Scottish Ministers are expected to legislate that any LGPS pensions that have been overpaid due to incorrect BMPs being held should not be reduced. Instead it is expected that overpayments will be ring fenced and frozen at their current level.

27 POST BALANCE SHEET EVENTS

The unaudited Statement of Accounts was issued by the Chief Financial Officer on 25 June 2019. Events taking place after this date are not reflected in the financial statements or notes.

On 20 December 2018, the Court of Appeal upheld a claim from firefighters and a group of over 200 judges that changes made to their pension scheme were discriminatory based on a member's age (the McCloud case). The government's right to appeal this decision was denied in June 2019 meaning that this legal ruling is now expected to have an impact on other public sector workers who have also seen similar changes to their pension schemes. Although this does not impact on the primary financial statements of the Fund, the Fund's actuaries have estimated that the overall impact of this will be to increase the actuarial present value of promised retirement benefits of the Fund by £6.8 million to £942million.

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 annual accounts

Opinion on annual accounts

I certify that I have audited the annual accounts in the annual report and accounts of Scottish Borders Council Pension Fund (the fund) for the year ended 31 March 2019 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 statement of 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 2018/19 (the 2018/19 Code).

In my opinion the accompanying annual accounts:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the fund during the year ended 31 March 2019 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 2018/19 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 by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three 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.

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 Chief Financial Officer has not disclosed in the annual accounts 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 have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Financial Officer and Scottish Borders Council Audit and Scrutiny Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer 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 Audit and Scrutiny 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 annual accounts 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 annual accounts.

A further description of the auditor's responsibilities for the audit of the annual accounts 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 Chief Financial Officer is responsible for the other information in the annual report. The other information comprises the information other than the annual accounts and my auditor's report thereon. My opinion on the annual accounts 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 annual accounts, 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 annual accounts 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 annual accounts 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 annual accounts are prepared is consistent with the annual accounts 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 annual accounts are prepared is consistent with the annual accounts 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 annual accounts are prepared is consistent with the annual accounts 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 annual accounts 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

September 2019

- **Scottish Borders Council Pension Fund**

Actuary's Statement as at 31 March 2017

Introduction

The last full triennial valuation of the Scottish Borders Council Pension Fund was carried out as at 31 March 2017 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 28 March 2018.

Asset value and funding level

At 31 March 2017, the smoothed value of assets was £654m which was 114% of the liabilities valued on an ongoing basis. The corresponding funding level at the previous valuation as at 31 March 2014 was 101%.

Contribution rates

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The 2017 valuation certified a total primary rate of 20.6% p.a. of pensionable pay. Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Assumptions

The assumptions used to value the liabilities at 31 March 2017 are summarised over:

Assumptions as at 31 March 2017	
Discount rate	5.0%
Pay increases	3.8%
Pension increases	2.8%
Mortality	S2PA tables with a multiplier of 110% for males and 100% for females 2016 CMI Model with a long-term rate of improvement of 1.5% p.a. and smoothing parameter of 7.5
Retirement	For each tranche of benefit, the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.
Commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension

The next valuation is due to be carried out as at 31 March 2020.

Barnett Waddingham LLP

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GLOSSARY OF TERMS

ACTIVE MANAGEMENT

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or asset allocation. Compare this with Passive Management.

ASSET ALLOCATION

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short term tactical changes might be made to achieve short-term advantage.

ALTERNATIVE ASSETS

This is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult.

BALANCED MANAGEMENT

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with specialist management.

BENCHMARK RETURN

This is calculated against the Fund's chosen "benchmarking" group, which comprises a composite of different market indices. The indices in use cover all the markets in which the Fund is invested.

CONTRIBUTING MEMBER

This is someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an "active" member.

DEFERRED MEMBER

This is someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.

GROWTH MANAGER

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with value manager.

INVESTMENT MANAGER/FUND MANAGER

A person or organisation that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients

MANDATE

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

PASSIVE MANAGEMENT

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with active management.

PENSIONER/DEPENDENT MEMBER

This is someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.

POOLED FUND

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

REALISED GAIN OR LOSS

Only when an investment is sold does the Fund actually make a profit or loss.

Realised profits and losses are those that have actually arisen via sales throughout the year.

RETURN

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

RISK

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

SEGREGATED FUND

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

SPECIALIST MANAGEMENT

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

UNREALISED GAIN OR LOSS

The Statements of Accounts are based on the market value of investments at 31 March 2016. This means that these show what profit or loss would have made if the Fund had sold all its investments on that day. The result is a notional "unrealised" profit or loss.

VALUE MANAGER

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

VESTED/NON VESTED OBLIGATIONS

Vested obligations refer to employee benefits that are not conditional on future employment. Non vested obligations refer to employee benefits that are conditional on future employment.

PENSION FUND STRAIN

The cost to employers of the early release of pension benefits.

ADDITIONAL INFORMATION

Key Documents Online

You can find further information on our website, www.scotborders.gov.uk/pensions, including the following documents:

- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Training Policy
- Business Plan 2019/20 to 2021/22
- Actuarial Valuation Statement 2017

Fund Advisers

Actuaries:	Hymans Robertson
Auditors:	Audit Scotland
Bankers:	Bank of Scotland
Investment Consultancy:	KPMG
Investment Custodians:	Northern Trust

Investment Managers

Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G, Partners Group, Permira, Blackrock and Macquarie

Additional Voluntary Contributions (AVC) Managers: Standard Life

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

You can get this document on audio CD, in large print, and various other formats by contacting us at the address below. In addition, contact the address below for information on language translations, additional copies, or to arrange for an officer to meet with you to explain any areas of the publication that you would like clarified.

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