

Scottish Borders Council
Pension Fund

annual report and financial statements

for the year to 31 March 2015



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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 2015. 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 2014/15.

Highlights for the Year

Pension Fund Committee/Pension Board

The Pension Fund Committee has worked hard during the year to support the delivery of 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.

A particularly useful workshop was held to develop the Fund's response to the new requirement to introduce Pension Boards into the governance arrangements. The constitution for the new Pension Board was approved by Scottish Borders Council in April 2015 and the first joint meeting of the Pension Fund Committee and the Pension Board was held on 18 June 2015.

I have been heartened by the positive response from our Trade Unions and Scheme Employers and am pleased to report that we have a full complement of 8 representatives on the Pension Board.

Investment Assets

Over the past few years the market recovery along with strong performance from key fund managers within the Fund, has resulted in the Fund growing in value. This year the Fund past the half billion level and at the end of March 2015 it had Net Assets of £545m, an increase of £59m on the previous financial year.

The overall performance of the Fund was 11.8% based on a 3 year rolling average basis, outperforming the benchmark and the local authority weighted average return over the period.

The Fund successfully transitioned the fixed income mandate from UBS to M&G and the UBS global equity mandate to Harris Associates. This means that the Fund now is diversified across six investment managers and four main asset classes.

Funding Levels

Barnett Waddingham, the Fund's actuary, worked with us during 2014/15 to undertake the triennial valuation based on the position at 31 March 2014. The outcome of this valuation was the continuation of a stable common employer contribution rate of 18% of pay and a funding level of 101%. This valuation is the first to take into account the new LGPS scheme which came into effect on 1 April 2015.

The Fund's strong investment returns over the past 3 years contributed significantly to the positive valuation position.

Pensions Administration

During the year the Pensions Administration Team have worked hard to implement a new IT system, support the data required to undertake the Triennial Valuation and be ready to go live with the new LGPS scheme on the 1st April 2015.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, officers within the Council, our investment managers, AON Hewitt and Barnett Waddingham for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.

Councillor Bill White

**Chairman, Pension Fund Committee
Scottish Borders Council**

MANAGEMENT COMMENTARY

Management and Financial Performance

Scottish Borders Council Pension Fund

2014/15 in Numbers

- £545m Net Assets, an increase of £59m on 2013/14
- 9,797 Members, an increase of 241 on previous year

- Implementation of Pension Board
- Good Engagement of Members in the Training Programme

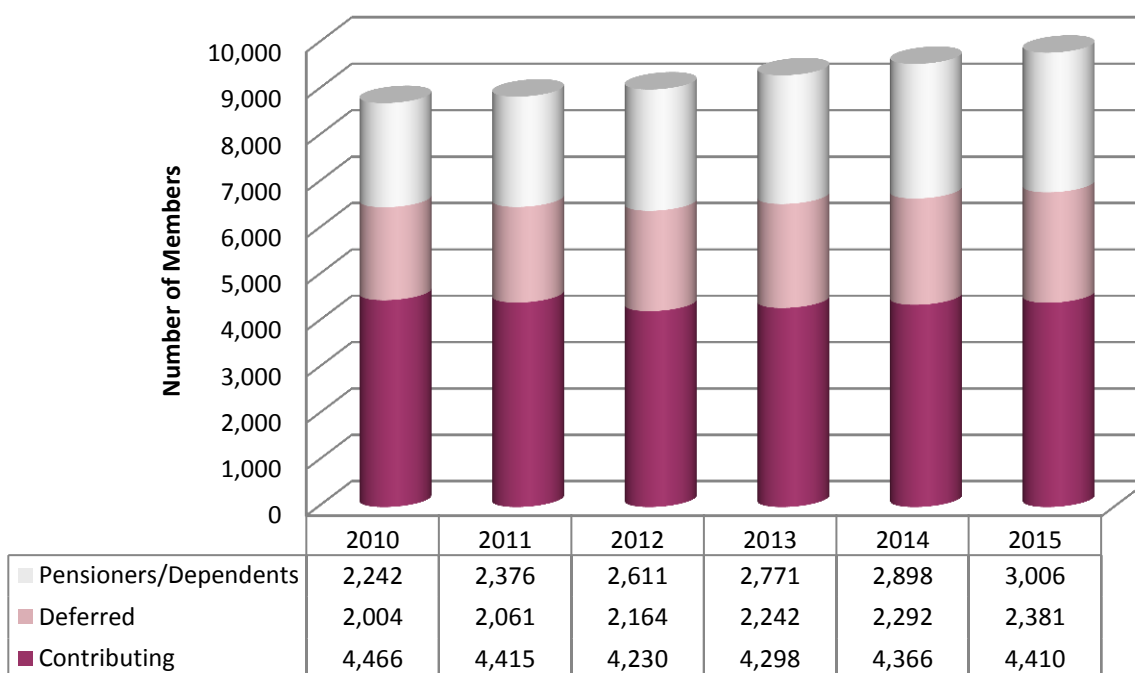
2014/15 Successes

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 9,797 of which 4,410 are actively contributing and 3,006 are in receipt of pension benefits. The following chart summarises 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 2010 the total membership has increased by 1,085 members (a 12% increase overall). During this period the number of pensioners and their dependants has increased by 34%, and the number of active contributing members has decreased by 1%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively and will be included as part of the considerations when undertaking a full investment review.

A full reconciliation of the movement in membership during 2014/15 is included in Note 19 to the Accounts, page 43.

Financial Performance

The Financial Statements for the Fund are set out from page 25.

Key Figures from these are set out below:

	2013/14 £'000	2014/15 £'000
Net (Withdrawals) from Dealings with Members	(782)	(1,334)
Net Return on Investments	40,920	60,364
Net Increase in the Fund during the Year	40,138	59,030
Closing Net Assets of the Scheme	486,095	545,125

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

- ***Strong Financial Returns on the Fund's Investments resulting in a Growing Asset Base***
- ***A Net Withdrawal Position in relation to Dealing with the Fund's Members.***

The strong asset position, along with the 2014 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 the legislation around what pensioners are able to do with their pension benefit entitlements are increasing individual freedom to withdraw from the Fund and trigger significant transfer movements. As this legislation has only just come into force this is an area that will require detailed monitoring to understand the impact and how it will affect the funding and investment strategy for the Fund.

Governance and Decision Making

There were significant changes required to be implemented in the governance arrangements by 1 April 2015. These were as a direct result of the Public Sector Pension Act 2013, as interpreted for the LGPS through regulations passed in 2014 and 2015. The Fund's Governance Policy and Compliance Statement has been updated to reflect these changes and was approved on 18 June 2015 and is available at www.scotborders.gov.uk/pensions.

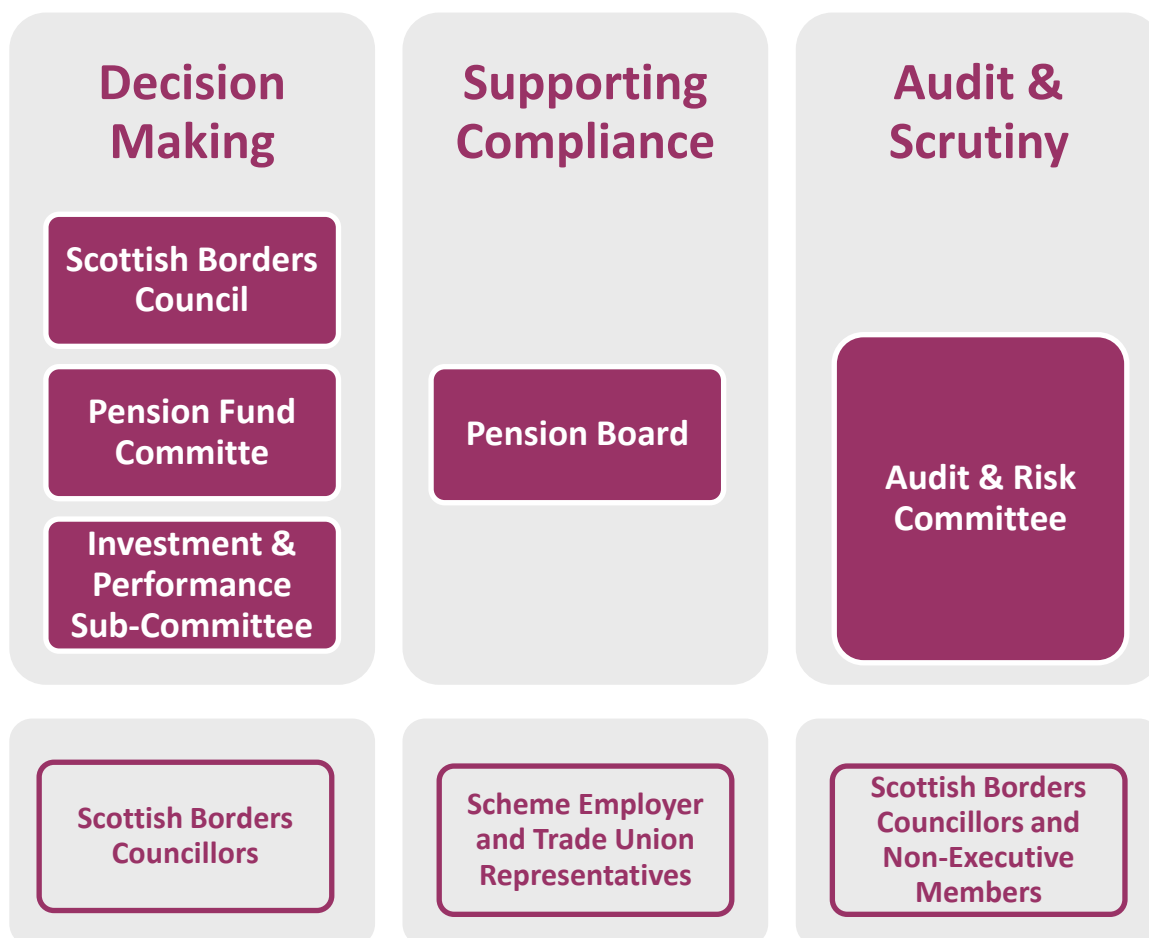
The most significant change was the creation of a Pension Board with a remit to assist the Council (as administering authority) in relation to:

- 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 new body is made up of four scheme employer representatives and four trade union representatives. The first joint meeting of the Pension Fund Committee and Pension Board was on 18 June 2015.

The changes also amended the membership of the Pension Fund Committee which now only has elected members from the administering authority, Scottish Borders Council.

As of 1 April 2015 the governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2015 can be found on pages 17 and 18.

Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 18 June 2015 to reflect the changes in the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2014/15 the training programme was developed. It was delivered to all members of the Pension Fund Committee and covered the following areas:

- Role of the Custodian
- Investments and new Investment Managers
- Governance

The Training Policy sets out a target that all members of the Pension Fund Committee in relation to attendance at Committee meetings and training events. The 2014/15 performance is set out below is for seven the Elected Members who had the voting rights on the Committee:

% Attendance	Number of Members Attending	
	Committee (Target – 2 meetings)	Training (Target – 2 sessions)
100% (4 sessions or more)	4	-
75% (3 sessions)	3	3
50% (2 sessions)	-	3
≤ 25% (1 or no sessions)	-	1

All members met the attendance target for Committees, and six out of the seven members (85%) met the target attendance at training events, demonstrating good engagement. The member who was able to attain the target level due to additional responsibilities at a national level, has been provided with additional training on an individual level to ensure the skills and knowledge required was maintained.

As a result of all the work in previous years 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 dependants' 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 as 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 2015/16 – 2017/18 on 18 June 2015 and this presented the action plan associated with supporting the delivery of these aims and objectives. The key actions supporting these objectives are:

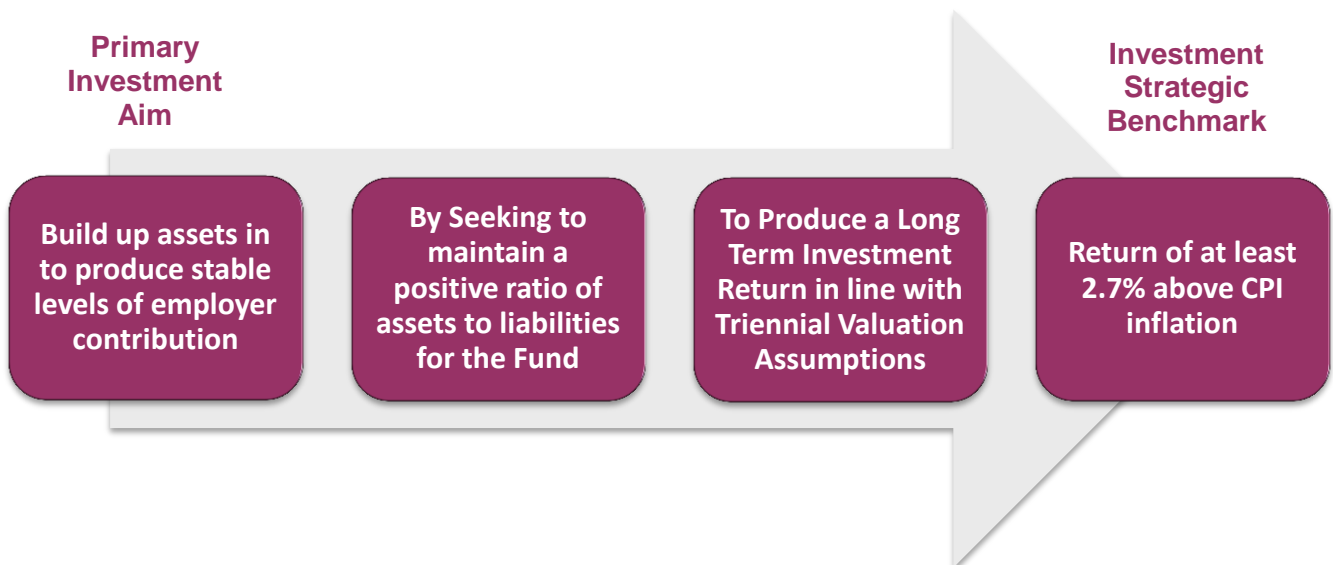
- ***Review Pension Strategies informed by 2014 Triennial Valuation Results***
- ***Develop and Implement an effective Communication Strategy for the Pension Fund***
- ***Implement the new LGPS Scheme***
- ***Review Additional Voluntary Contribution Scheme Provision***
- ***Ensure accuracy of Pension Records***
- ***Continue to develop robust governance and risk management***
- ***Review services provided externally to ensure that these represent best value to the Fund***

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 18 June 2015 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 are included in Annex 1 and the Investment Strategy that it sets out is summarised below:



The following table indicates the 31 March 2015 position in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/14 %	Asset Allocation at 31/3/15 %	Strategic Benchmark %
UK Equity	22.9	22.1	19.0
Global Equity	42.0	43.5	46.0
Bonds	10.9	10.7	13.0
Multi Asset Fund	17.4	17.2	17.0
Property	4.4	5.3	5.0
Cash	2.4	1.2	0.0
Total	100.0	100.0	100.0

As can be seen from the table on the above there has not been any major changes in the position of the allocation of assets between 2013/14 and 2014/15. The Fund has taken a deliberate decision to run underweight in the Bonds allocation due to the current market conditions and invested £4m of the surplus cash into Property.

MANAGEMENT COMMENTARY

Review of Investment Performance

2014/15 in Numbers

- Strong 3 year annualised investment performance of 11.8%, 0.4% above benchmark and 0.8% above the Local UK Authority Average

- Transition of Fixed Income Mandate to M&G
- Transition of a Global Equity Mandate to Harris Associates
- £4m Surplus Cash invested into Property Mandate

Key Successes 2014/15

Investment Markets

During 2014/15 all markets demonstrated a positive 12 month and rolling 3 year annualised return to 31 March 2015. This was underpinned by factors such as:

- Economic growth in the UK and US over the past two years has shown steady improvements with an annual GDP growth in the UK of 2.8% for 2014, and 2.4% in the UK.
- The European Central Bank commenced a programme of quantitative easing in January 2015 in an attempt to boost growth and employment through the Eurozone.
- Several central banks around the globe reduced interest rates which were driven by falling oil prices.
- Bond yields (especially on longer dated bonds) have been at very low levels throughout the period supporting a strong return on longer gilts and investment grade corporate bonds.

The Fund's investment performance has mirrored these strong investment returns during 2014/15.

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 in compared with the benchmark) since 2010 has been positive, and that over the 10 year period there has only been one year of negative returns overall for the Fund and that was during the financial crisis.

3 Year Annualised Returns ending 31 March



Including the impact of the passive currency hedge, the overall fund return over 3 years was 11.8% p.a. versus the benchmark of 11.4% p.a., and the Fund return over 1 year was 12.3% p.a. compared to a benchmark of 11.8% p.a. Excluding the impact of the currency hedge, the fund return over 3 years was 11.9% p.a. versus a benchmark of 11.5% p.a. and the fund return over 1 year was 13.2% p.a. versus a benchmark of 13.2% p.a.

The Fund achieved these favourable returns in 2014/15 despite the fact that it executed two managers' transitions and started the year with a significant amount of internally managed cash. The decisions to transition the Bonds/Fixed Income Mandate away from UBS to M&G, and the Global Equity Mandate from UBS to Harris Associates were completed in November and December 2014. In addition, £4m of surplus cash was invested into the UBS Property Mandate over the year as opportunities arose to invest in the desired investment funds.

Each quarter the Investment Consultants, AON Hewitt, reported on the Fund's quarterly performance by individual investment manager and mandate to the Pension Fund Committee, and these managers presented their performance to the Committee during the year giving members an opportunity to gain a deeper understanding of the investments, the decision making process and their performance.

The following table provides an analysis of how the Fund's investments performed against the UK Local Authority Weighted Average and the Fund Benchmark.

Return on Investment	1 Year rolling return			3 year rolling return		
	Fund %	Bench ¹ %	LA ² %	Fund %	Bench ¹ %	LA ² %
Total Fund including Currency Hedging	12.3	11.8	13.2	11.8	11.4	11.0
Total Fund excluding Currency Hedging	13.2	13.4		11.9	11.5	
Global Equities including UK	17.5	19.1	18.3	14.6	15.3	14.3
UK Equities	6.9	6.6	6.3	11.5	10.6	11.7
Total Bonds	16.7	17.1	11.4	9.5	8.9	6.9
UK Government Bonds	26.2	22.7	14.5	10.0	8.7	6.0
UK Corporate Bonds	12.4	13.1	13.0	8.8	8.7	9.1
Property	17.6	10.4	15.8	16.6	9.4	9.7
Alternatives	10.8	4.6	12.5	-	-	-
Cash	2.4	0.3	1.8	1.3	0.4	2.0

Key:

¹ **Bench:** Benchmark Return which reflects the overall performance of the individual markets available to the manager within the mandate given to them.

² **LA:** Local Authority Weighted Average Return based on WM Company's League Tables for period to 31 March 2014

The performance of the Fund in all of the Asset classes with the exception of Global Equities exceeded the 3 year benchmark return. The Global Equities 1 year return was negatively impacted upon by UBS prior to the divestment from them in the first half of the year, Morgan Stanley had only one quarter of 2014/15 where they produced a favourable contribution to the overall performance of the Fund and this was offset by strong performance by Baillie Gifford's Global Equity mandate over the year.

Top 20 Direct Equity Holdings at 31 March 2015

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential	5.7	General Motors	2.1
Royal Caribbean Cruises	4.6	Nestle	2.1
Naspers	4.5	Markel	2.1
Anthem	2.7	Google	2.1
Taiwan Semicon.SPN.ADR	2.7	Wells Fargo & Co	2.1
Ryanair	2.6	Intel Corp	2.1
Amazon	2.5	AIA Group	2.1
Credit Suisse	2.5	Julius Baer Group Ltd	2.1
TD Ameritrade	2.4	CNH Industrial	2.0
BNP Paribas	2.2	Allianz	2.0

MANAGEMENT COMMENTARY

Funding Position

2014 Valuation

- **101 % Funding Level for the Fund**
- **Stable Common Employer Contribution Rates at 18%**

Triennial Valuation 2014

The Triennial Funding Valuation as at the March 2014 was undertaken during 2014/15 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Board on 18 June 2015. A copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

The outcome of the 2014 Valuation was a funding level of 101% and a Fund which is no longer in a funding deficit position. As a result there was no change in the overall Fund common employer contribution rate, although some individual employer rates did change for specific circumstances.

Valuation Date as at 31 March	Past Service Funding Position – Scottish Borders Council Pension Fund		
	2008 £m	2011 £m	2014 £m
Value of the Scheme Liabilities	(310.1)	(402.2)	(487.6)
Smoothed Asset Value	299.2	384.8	490.5
Surplus/ (Deficit)	(10.9)	(17.4)	2.9
Funding Level	96%	96%	101%

Note 20 to the Statement of Accounts on page 44, contains details of the outcome and assumptions used in the 2014 Valuation and the impact that it had on employer contribution rates.

This is the first valuation that has taken into account the move to an LGPS based on career average salaries rather than final salary which came into effect on 1 April 2015.

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 2015

Note 21 to the Statement of Accounts on page 47, 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 £179m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 Triennial Funding Valuation because IAS 19 stipulates a discount rate 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 its overall long term funding health.

MANAGEMENT COMMENTARY

Pensions Administration Update

2014/15 in Numbers

- 16 Scheme Employers
- £19.1m of Pension and Other Benefits paid during year
- £18.2m of Contributions Received from 4,410 Active Members and their Employers
- 6,159 Benefits Statements issued

- Implementation of new Pensions Administration System
- Held First Scheme Employer Liaison Meeting
- Ready to launch new LGPS on 1 April 2015

Key Successes 2014/15

Scheme Employer Liaison

The first Scheme Employer Liaison meeting was held during 2014/15 and was agreed by all those in attendance that this was a beneficial exercise and should be repeated on an annual basis. The intention is that this annual meeting will be held towards the end of the financial year where future legislative changes and requirements for the year end processing can be discussed.

In addition to the formal Liaison Meeting it is also worth noting that a number of briefings were held with employer groups during the year, bringing to their attention the changes that were implemented from 1 April 2015 with the new LGPS and what that would mean for them as employers and/or their scheme members

The good relationship with the main Scheme Employers also has resulted in the Fund securing the involvement of 4 employers as representatives in the new Pension Board, with a further body acting as a substitute.

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 come within other national pension schemes. There are 16 employer organisations within the Fund including the Council itself and membership by employer are analysed over the page.

Membership Details as at 31 March 2015	Number of Contributors	Pensioners	Deferred Pensioners	Total
<i>Scheduled Bodies:</i>				
Scottish Borders Council	4,056	2,835	2,195	9,086
Borders College	152	56	79	287
Visit Scotland (Scottish Borders)	1	7	9	17
	4,209	2,898	2,283	9,390
<i>Active Admitted Bodies:</i>				
Scottish Borders Housing Association	128	69	56	253
Borders Sport and Leisure Trust	58	10	23	91
Jedburgh Leisure Facilities Trust	2	-	2	4
L&B Community Justice Authority	5	1	3	9
Amey Community Limited	8	2	4	14
	201	82	88	371
<i>Admitted Bodies with No Active Contributing Members:</i>				
Gala Youth Project	-	1	1	2
Scottish Borders Careers	-	1	3	4
Others	-	24	6	30
	-	26	10	36
Total	4,410	3,006	2,381	9,797

Member Engagement

This has been identified as an area for development within the Pension Fund Business Plan 2015/16 – 2017/18. The development of a Communication Policy and associated action plan is included as an action for delivery within the next three year period. This will include exploiting the use of the web to engage with members via self-service interaction with the new pension administration system and improved information being available on the website.

Trade Unions as member representatives have also shown good engagement through their attendance at the Pension Fund Committee and also by securing 4 representatives for the Pension Board and identifying several substitutes.

Pensions Administration Strategy

The Fund's Pensions Administration Strategy was approved in June 2012. 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 2014/15 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 18 June 2015 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 2014/15, however they have been detrimentally affected during the year, when compared to the previous year, due to the implementation of the new Pensions Administration System, the data gathering and analysis for the Triennial Valuation and preparation for implementation of the new LGPS Pension Scheme, all of which were achieved with no additional resource in the Pensions Administration Team.

Service Standard - Estimates

Standard	Volume of Requests	Target Response	2014/15 % on Target
Estimates – Transfer In	47	10 days	8.5%
Estimates – Transfer Out	73	10 days	24.7%
Estimate – All Other	884	10 days	86.9%
Total Estimates	1,004		78.7%

Service Standard - Query Response Turnaround

Standard	2013/14		2014/15 *	
	Volume of Queries	% on Target	Volume of Queries	% on Target
Query responses – within 10 working days	554	100%	480	100%
Benefit Statement queries – within 20 working days	101	100%	20	100%
Total	655	100%	500	100%

*** Note:**

The way in which information has been recorded for general queries and advice was enhanced during 2013/14, however, it has been identified that not all enquiries received have been recorded in 2014/15. Action has been taken to ensure that this is rectified in 2015/16.

Service Standard - Other

Area	Measure	Completed
Employer Liaison Meetings	2 per annum	1 meeting
Benefit Statements	by end of October	1 November 2014

Employer Performance Measures

Service Standard – Employer Notifications

Standard	Volume of Notifications	Target %	% Achieved
New starts notification - within 20 working days	547	90%	100%
Changes notified – within 20 working days	466	90%	100%
Retirement info – at least 20 working days before	167	90%	100%
Early leaver notification – within 20 working days	407	90%	100%
Death in service notification – within 10 working days	3	90%	100%

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	7	5	58%
Jedburgh Leisure Facilities Trust	12	-	100%
Borders Sport and Leisure Trust	12	-	100%
AMEY Community Limited	11	1	92%

There has been a small increase in the number of payments being received late when compared to 2013/14, where there were 6 late payments compared with 4 in the previous year. Engagement with Scottish Borders Housing Association resulted in an improvement in their performance. The payments dates continue to be monitored on a monthly basis.

Councillor Bill White
Chairman
Pension Fund Committee

Tracey Logan
Chief Executive
Scottish Borders Council

David Robertson
Chief Financial Officer
Scottish Borders Council

29 September 2015

GOVERNANCE

Annual Governance Statement 2014/15

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 18 June 2015) 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.
- b) The Council has delegated its pension's functions 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.
- c) The Pension Fund appoints professional advisers and external service providers.
- d) 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.
- e) 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.
- f) 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 advice 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.
- g) The Chief Officer HR for the Council is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation.
- h) The Chief Officer Audit & Risk (Head of Internal Audit (HIA)) reports administratively to the Service Director Strategy & Policy, reports functionally to the Audit & Risk Committee, meets regularly with the Chief Financial Officer, and has direct access to the Corporate Management Team. The HIA reports in her own name and retains final edit rights over all internal audit reports and 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 of the Council's arrangements.

- i) The Pension Fund responds to findings and recommendations of external audit, scrutiny and inspection bodies and its own independent internal audit section. The Audit & Risk 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 & Risk 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 2014/15, page 19.

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 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 on page 24.

The conclusion from the review activity outlined above is that in 2014/15 the Pension Fund continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

Improvement Areas of Governance

The review has however identified some areas where further improvements in internal controls and governance arrangements can be made:

- a) The ongoing implementation of recommendations made by Internal Audit and External Audit, with particular emphasis on prompt implementation of high priority recommendations.
- b) Development of a communications plan to improve awareness and understanding of stakeholders and encourage maximum membership of the Fund.
- c) Development of a business plan to improve planning and monitoring of the performance of the Fund.
- d) Implementation of new governance arrangements in response to reforms including committee structure, review of pensions' administration strategy, and training policy.
- e) Work to fully evaluate the implications of new national policy on freedom of choice of pension sums.

Certification

It is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control and governance. Although areas for further improvement have been identified 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 Compliance Statement on page 19.

Councillor Bill White
Chairman
Pension Fund Committee
29 September 2015

Tracey Logan
Chief Executive
Scottish Borders Council

GOVERNANCE

Governance Compliance Statement 2014/15

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>Introduction of the Pensions Board (the Board) has formalised 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.</p> <p>The Board has a constitution developed in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board will meet 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) has been established under the Committee and its remit is set out in the Scheme of Administration. The 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 will meet 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 18 June 2015). 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.
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 on 18 June 2015.

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 will be at least 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	New Investment Sub-Committee established will meet at least every six months in between main joint Committee/Board meetings.
C	An administering authority that 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	Minutes and Public papers available via Council website, as are various governance and scheme policy documents.

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 2014 and subsequent reviews have followed the Council's cycle, as shown below was followed:

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	5	1	-	7	3
Employer	1	4	-	1	4	-
Resource & Skill	-	7	-	-	3	4
Liquidity	3	5	-	-	5	3
Administrative	4	5	1	-	5	5
Regulatory & Compliance	1	3	1	1	-	4
Reputation	1	4	-	-	2	3
Total Number of Risks	14	33	3	2	26	22

The two risks that remain at red assessment i.e. high risk as at 31 March 2015 are:

- ***Change in the composition of the Pension Fund Membership between active/deferred/pensioners***
- ***Legislation 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 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 2015, and of its income and expenditure for the year ended 31 March 2015.

Councillor Bill White
Chairman
Pension Fund Committee

David Robertson
Chief Financial Officer
Scottish Borders Council

29 September 2015

STATEMENT OF ACCOUNTS 2014/15 FUND ACCOUNT

2013/14 Restated £'000		2014/15 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme:		
17,184	Contributions Receivable	18,217	6,9
1,096	Transfers In	703	7
18,280		18,920	
(17,230)	Benefits Payable	(19,106)	8
(1,466)	Payments To And On Account Of Leavers	(786)	10
(366)	Administration Expenses	(363)	
(19,062)		(20,255)	
(782)	Net Additions/(Withdrawals) from Dealings with Members	(1,334)	
	Return on Investments:		
5,264	Investment Income	4,605	11
37,796	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	58,422	12
(162)	Taxes on Income	(167)	
(1,978)	Investment Management Expenses	(2,496)	13
40,920	Net Return on Investments	60,364	
40,138	Net Increase/(Decrease) in the Fund during the Year	59,030	
445,957	Opening Net Assets of the Scheme	486,095	
486,095	Closing Net Assets of the Scheme	545,125	

NET ASSETS STATEMENT as at 31 March 2015

2014 £'000		2015 £'000	Notes
	Investment Assets		
15,372	Fixed Interest - Public Sector	-	} 15
186,552	Equities	216,527	
	Managed Funds:		
21,348	Property	28,652	
64,943	Global Equities	76,217	
61,246	UK Equities- Passive	65,308	
37,270	Bonds	18,374	
-	Diversified Fixed Income	39,967	
83,987	Alternatives	93,815	
1,368	Open Ended Investment Contracts	1,665	
(126)	Derivatives – Forward Foreign Exchange	(2,515)	
11,650	Cash Deposits	6,450	
483,610	Total Investment Assets	544,460	
1,000	Other Investment Balances	748	
	Current Assets & Liabilities		
2,279	Cash Balances	1,138	
129	Contributions due from Employers	91	
313	Other Current Assets	56	
(1,236)	Other Current Liabilities	(1,368)	
2,485		665	
486,095	Net Assets	545,125	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in the Actuarial Statement in Note 21.

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 29 September 2015.

David Robertson CPFA
Chief Financial Officer
29 September 2015

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 2014 (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 2010
- 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 2014/15 were based on the valuation undertaken as at the 31 March 2011 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 2014/15 ranged from 15.5% to 18.5%. *From 1 April 2015 these employer contributions will be based on the outcome of the valuation undertaken as at the 31 March 2014.*

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 tie. 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 2015. *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 before 1 April 2009	Service after 31 March 2009 until 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
Lump Sum	Automatic lump sum of 3 x salary. 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 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.

From the 1 April 2015, the scheme will become a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2014/15 financial year and its position as at the 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* (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 2014/15 - 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 Sch 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.

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.

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 15, page 37 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 21, page 46).

Additional Voluntary Contributions (AVCs)

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 2015 was £0.754m (2013/14 £0.745m). During the year contributions in totalled £0.08m, while payments out of the AVC fund totalled £0.22m. 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.

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 2015 was £20.9m.

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary (currently Barnett Waddingham), 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 21, 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 2015 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 21)	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. Barnett Waddingham 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 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £44m - A 0.5% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £27m - A 0.5% increase in the long-term rate of salary increase would increase value of the liabilities by £6m, and - A 1.25% increase in assumed life expectancy would increase the deficit by £5m <p><i>Source – Triennial Valuation 2014</i></p>
Portfolio of alternative assets held in a fund of funds	The alternative assets fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds directors or independent administrators judge necessary. The fund of funds is not publically listed and as such there is a degree of estimation involved in the valuation.	The total portfolio of alternative assets held in a fund of funds is valued in the Financial Statements at £93.82m. There is a risk that this investment may be under- or overstated in the accounts.

6 CONTRIBUTIONS RECEIVABLE

2013/14				2014/15		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
12,749	4,318	17,067	Normal	13,039	4,400	17,439
80	-	80	Special/Pension Fund Strain	743	-	743
-	37	37	Additional Voluntary	-	36	35
12,829	4,355	17,184	Total	13,782	4,436	18,217

7 TRANSFERS IN

There were no group transfers in to the scheme during 2014/15 or 2013/14 and the total of £0.703m (2013/14: £1.096m) represents the total of transfer values in respect of individual members joining the scheme.

8 BENEFITS PAYABLE

2013/14 £'000		2014/15 £'000
13,781	Pension Payments	14,657
3,449	Lump Sums/Death Benefits	4,449
17,230		19,106

9 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

2013/14			2014/15	
Benefits Payable £'000	Contributions Receivable £'000		Benefits Payable £'000	Contributions Receivable £'000
16,452	15,569	Scottish Borders Council	18,255	16,511
221	518	Scheduled Bodies	245	585
557	1,097	Admitted Bodies	606	1,121
17,230	17,184	Total	19,106	18,217

10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2013/14 £'000		2014/15 £'000
40	Contributions Returned	73
1,426	Individual Transfers to Other schemes	713
1,466		786

11 INVESTMENT INCOME

2013/14 £'000		2014/15 £'000
(527)	Income from Fixed Interest Securities	(103)
(4,151)	Dividends from equities	(3,767)
(555)	Income from Pooled Investment Vehicles	(676)
(31)	Interest on Cash Deposits	(59)
(5,264)		(4,605)

12 PROFITS AND LOSSES ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

2013/14 Restated £'000		2014/15 £'000
(36,161)	Realised	(21,150)
(547)	Unrealised	(37,272)
(36,708)		(58,422)

2013/14 Restated as a result of changing requirements around Investment Management Fee disclosures.

13 INVESTMENT MANAGEMENT EXPENSES

2013/14 Restated £'000		2014/15 £'000
760	External Management Fees - Invoiced	919
1,088	External Management Fees - Deducted from Capital	1,246
23	Custody Fees	36
93	Investment Consultancy Fees	135
14	Performance Measurement Fees	14
-	Oversight And Governance costs	146
1,978	Total	2,496

2013/14 Restated as a result of changing requirements around Investment Management Fee disclosures.

14 AUDITOR'S REMUNERATION

In 2014/15 the agreed audit fee for the year was £23,000. There were no other fees incurred during 2014/15 in respect of services provided by KPMG, the Pension Fund's auditor.

15 ANALYSIS OF NET INVESTMENT ASSETS

Market Value at 31 March 2014				Market Value at 31 March 2015		
UK £'000	Overseas £'000	Total £'000		UK £'000	Overseas £'000	Total £'000
			Investment Assets			
15,372	-	15,372	Fixed Interest - Public Sector	-	-	-
48,187	138,365	186,552	Equities	53,569	162,958	216,527
			Managed Funds:			
21,348	-	21,348	Property	28,652	-	28,652
-	64,943	64,943	Global Equities	-	76,217	76,217
61,246	-	61,246	Passive UK Equities	65,308	-	65,308
37,270	-	37,270	Bonds	18,374	-	18,374
-	-	-	Diversified Fixed Income	-	39,967	39,967
-	83,987	83,987	Alternatives	-	93,815	93,815
1,368	-	1,368	Other Open Ended Investment contracts	1,665	-	1,665
10,582	1,068	11,650	Cash Deposits	5,056	1,394	6,450
195,373	288,363	483,736	Total Investment Assets	172,624	374,351	546,975
			Investment Liabilities			
(126)	-	(126)	Derivative - Passive Currency Hedge	(2,515)	-	(2,515)
195,247	288,363	483,610	Net Investment Assets	170,109	374,351	544,460

As at 31 March 2015 assets valued at £446.78m were quoted on the Stock Exchange (31 March 2014: £388.10m). The investments in the alternatives portfolio, managed by LGT Capital Partners (£93.82m at 31 March 2015), are not quoted on a stock exchange.

During 2014/15, sales of investments totalled £91.04m and purchases totalled £148.77m. These levels were significant due to the transition activities during 2014/15 to new investment managers. Transaction costs are included in the cost of purchases and sales proceeds.

The Fund has in place a passive currency hedging programme, using forward foreign exchange contracts, which hedges 50% of exposure on specific overseas currencies on its overseas equity investments. All contracts are traded on an over the counter basis. The forward currency contracts outstanding at 31 March 2015 were hedging a foreign currency exposure value of £90.48m and had a market value of a loss of £2.52m. These contracts had a settlement date of 11 June 2015.

Alternative asset portfolio at 31 March 2015

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £93.82m at 31 March 2015, is allocated to the following asset classes at 31 March 2015: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities and Private Equity.

(*GTAA – Global Tactical Asset Allocation*)

Investment Movement Reconciliation

	Opening Market Value £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Other Movements £'000	Closing Market Value £'000
Investment Assets					
Fixed Interest - Public Sector	15,372	-	(14,171)	(1,201)	-
Equities	186,552	98,881	(79,711)	10,805	216,527
Managed Funds:					
Property	21,348	9,080	(3,004)	1,228	28,652
Global Equities	64,943	-	-	11,274	76,217
Passive UK Equities	61,246	-	-	4,062	65,308
Bonds	37,270	517	(34,158)	14,745	18,374
Diversified Fixed Income	-	40,000	-	(33)	39,967
Alternatives	83,987	-	-	9,828	93,815
Other Open Ended Investment Contracts	1,368	295	-	2	1,665
Derivative Contracts:					
Passive Currency Hedge	(126)	2,084	-	(4,473)	(2,515)
Net Investments exc. Cash Deposits	471,960	150,857	(131,044)	46,237	538,010

Significant Transactions during the year:

- £53.67m was invested in the Harris Associates global equities mandate funded by the divestment of the of the global equities mandate with UBS.
- The Government Gilts and Bonds mandates with UBS were sold and invested into three new managed funds with M&G of which £8.35m was invested in the Corporate Bond Fund, £8.40m into the Fixed Interest Fund and £40.00m into the Alpha Opportunities (Diversified Fixed Income).
- £4m of the internally managed cash in the Fund was invested into the Property mandate with UBS.

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 2015. Each of the investments comprises units in a managed fund.

Value as at 31 March 2015	£'000
M&G Alpha Opportunities Fund	39,967
Morgan Stanley Global Brands Fund	76,217
LGT Crown SBC Segregated Portfolio	93,815
UBS UK Passive Equities	65,308

Investment Analysed by Fund Manager

Investment Management was undertaken on behalf of the Fund during the financial year by four firms of investment managers: UBS Global Asset Management, Baillie Gifford & Co, Morgan Stanley, Harris Associates and M&G and LGT Capital Partners. The Fund's passive currency hedging programme was provided by State Street Global Advisors. As at 31 March 2015 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

31-Mar-14				31-Mar-15	
£'000	%			£'000	%
61,247	12.67	UBS	UK Equities - Passive	65,308	12.00
32,065	6.63	Baillie Gifford	UK Equities	40,783	7.49
109,258	22.59	Baillie Gifford	Global Equities	123,788	22.74
-	-	Harris	Global Equities	57,214	10.51
49,283	10.19	UBS	Global Equities	-	0.00
64,943	13.43	Morgan Stanley	Managed Fund - Global Equities	76,216	14.00
52,735	10.90	UBS	Bonds	-	-
-	-	M&G	Managed Fund - Diversified Income	39,967	7.34
-	-	M&G	Managed Fund - Bonds	18,374	3.37
21,431	4.43	UBS	Property	29,428	5.40
83,987	17.37	LGT	Managed Fund - Alternatives	93,815	17.23
(126)	(0.03)	State Street	Derivatives - Passive Currency Hedge	(2,515)	(0.46)
8,787	1.82	Internal	Internally Managed Cash & Investments	2,081	0.38
483,610	100.00			544,459	100.00

The benchmarks and performance targets for each manager as at the 31 March 2015 are contained in Annex 1, Section 4.3, page 51 for information.

Fund Performance

The total Fund return for the year was 12.3% including the currency hedging. The hedging arrangements had a negative impact, decreasing the return by 1.8%. Excluding the currency hedging, the return on the Fund was 13.2%, with a relative return under benchmark of 0.2%.

Over three years the Fund has generated an annualised return of 11.8% per annum, including the currency hedging, with a relative return over benchmark of 0.4% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

16 STOCK LENDING

As at 31 March 2015 no stock had been released to a third party under a stock lending arrangement.

17 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 24. 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 (WM), it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	10.49
Global Pooled Equities	10.04
UK Bonds	7.15
Cash	0.01
Property	2.43
Alternatives	4.70

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 15 £'000	+/- % Change*	Value on Increase £'000	Value on Decrease £'000
UK Equities	106,091	10.49%	117,220	94,962
Global Equities	257,219	10.04%	283,044	231,394
Total Bonds	58,341	7.15%	62,512	54,170
Cash	2,081	0.01%	2,081	2,081
Property	29,428	2.43%	30,143	28,713
Alternatives	93,815	4.70%	98,224	89,406
Total Assets Exc. Currency Hedge	546,975	7.02%	585,224	500,726

*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 2014 and 31 March 2015 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 2014 £'000	At 31 March 2015 £'000
Cash and Cash Equivalents	13,929	7,588
Fixed Interest Securities	52,642	58,341
	66,571	65,929

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 15 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	7,588	76	(76)
Fixed Interest Securities	58,341	583	(583)
	65,929	659	(659)

(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. To help manage this risk, the Fund hedges 50% of its exposure to equities denominated in certain major foreign currencies through the operation of a passive currency overlay programme, operated by State Street.

The following table summarises the Fund's currency exposure at 31 March 2015:

Currency exposure by asset type	As 31 March 2014 £'000	As 31 March 2015 £'000
Overseas Equities	203,309	239,175
Diversified Bonds	-	39,967
Alternatives	83,987	93,815
Cash - Foreign Currency	1,068	1,394
Total	288,364	374,351

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with WM, 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 15 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Australian Dollar	1,114	9.80%	1,223	1,005
Brazilian Real	523	12.69%	589	457
Canadian Dollar	1,395	6.04%	1,479	1,311
Danish Krone	1,117	6.26%	1,187	1,047
EURO *	20,815	3.15%	21,471	20,159
Hong Kong Dollar	3,543	7.98%	3,826	3,260
Japanese Yen *	13,876	5.77%	14,677	13,075
Norwegian Krone	1,289	8.79%	1,402	1,176
South African Rand	4,461	11.31%	4,966	3,956
South Korean Won	2,205	6.56%	2,350	2,060
Swedish Krona	3,742	7.03%	4,005	3,479
Swiss Franc	16,463	7.42%	17,685	15,241
US Dollar *	90,485	4.03%	94,132	86,838
Total Currency **	161,028		168,992	153,064

* denotes 50% GBP hedge

** 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 2015, including current account cash, was £3.14m (31 March 2014: £10.98m). This was held with the following institutions:

	Rating	Balance at 31 March 2014 £'000	Balance at 31 March 2015 £'000
Money Market Accounts			
Ignis	AAA	2,175	500
Scottish Widows	AAA	2,175	500
Blackrock	AAA	2,175	500
Prime Rate	AAA	2,175	500
Bank Current Accounts			
Bank of Scotland	A	2,279	1,138
Total		10,979	3,138

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 2015, the Fund's only illiquid assets under this definition are some of the Property fund of funds holdings which are only tradable in the secondary market.

18 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £6.603m (2014: £6.081m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.022m (2014: £0.022m). The Council charged the Pension Fund £0.321m 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	2014 £'000	2015 £'000
Due from Scottish Borders Council	31	
Due to Scottish Borders Council		(136)

19 MEMBERSHIP RECONCILIATION 2014/15

	Membership Reconciliation – Number of Members			
	Contributing Members	Pensioners	Deferred Pensioners	Total
Number at 31 March 2014	4,366	2,898	2,292	9,556
Adjustments (late notifications etc.)	(19)	8	-	(11)
New Members	547	-	184	731
Transfers to Other Schemes	(99)	-	(25)	(124)
Refunds of Contributions	(99)	-	-	(99)
Retirement of Contributing Members	(114)	114	-	-
Transfer to Deferred Pensioners	(184)	-	-	(184)
Re-employed Deferred Pensioners	15	-	(15)	-
Retirement of Deferred Pensioners	-	53	(53)	-
Dependants' Pensions	-	35	-	35
Deaths	(3)	(101)	(2)	(106)
Commutation (trivial pensions)	-	(1)	-	(1)
Ill Health Grant	-	-	-	-
End of Entitlement	-	-	-	-
Number at 31 March 2015	4,410	3,006	2,381	9,797

20 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2014, 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 [18 June 2015] 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;
- ensure effective and efficient management of employer's liabilities; and
- allow the return from investments to be maximised within reasonable risk parameters.

Funding Strategy (Section 3, page 4 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; and
- As stable an employer contribution rate as is practical

2014 Actuarial Valuation

The 2014 Actuarial Valuation was undertaken for the Fund as at 31 March 2014 and was completed during the financial year 2014/15 by the Fund's actuaries, Barnett Waddingham. It has been undertaken in accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The funding level of the Fund as at the 31 March 2014 was 101%, above the valuation as at 31 March 2011 and this corresponded to a surplus of £2.8m. The following table summarises the funding position.

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

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 2017.

New LGPS Benefits Impact on Benefits Projections

The Actuarial Valuation Report identified the estimated additional pension and lump sum benefits projected to come into the payments of benefits in each year during the period 1 April 2015 to 31 March 2018 as a result of the changes to the LGPS benefits. These are set out as follows:

Financial year	Additional Retirement Benefits	<i>Increase versus 2014/15 Base</i>
2014/15 Base (per Note 8)		19.1
2015/16	3.4	17.8%
2016/17	5.2	27.2%
2017/18	5.4	28.3%

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 2014) were:

	2011 Valuation		2014 Valuation	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities/absolute return funds	6.9	3.4	5.9	2.6
Gilts	4.3	0.8	3.6	-
Bonds	5.5	2.0	4.1	0.5
Property	5.5	2.0	5.5	1.9
Multi Asset Fund	-	-	5.9	2.3
Expense Allowance				
Retail Price Inflation (RPI)	3.5	-	3.6	-
Pay Increases – Long Term	5.0	1.5	4.6	2.0
Pension Increases	3.0	(0.5)	2.8	(0.8)
Discount Rate	6.4	2.9	5.5	1.9

Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S1PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2013 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 2014 Actuarial Valuation, the actuary certified the common rate of contribution as 18% of payroll for the next three 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	
	2014/15	2015/16 to 2017/18
Scottish Borders Council Common Pool	18.0%	18.0%
Leisure Trusts Common Pool *	18.0%	15.5%
Scottish Borders Housing Association – Individual	-	19.0%

* During the inter-valuation period the Pension Fund Committee agreed, in consultation with the actuary, to reduce the rate for Borders Sport and Leisure Trust in order that they would undertake work to open up the LGPS scheme to their employees again. This was set at 15.5% until the outcome of the 2014 Actuarial Valuation.

21 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 as at:		
	31 March 2013 £m	31 March 2014 £m	31 March 2015 £m
Present value of the defined benefit obligations	(616.3)	(713.9)	(716.6)
Fair Value of Fund Assets* (bid value)	448.7	475.9	537.4
Net Asset/(Liability)	(167.6)	(238.0)	(179.2)

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 2013		At 31 March 2014		At 31 March 2015	
	% p.a.	% p.a.	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Discount Rate	4.5	1.1	4.5	0.8	3.3	0.1
Retail Price Inflation (RPI)	3.4	-	3.7	-	3.2	-
Pay Increases – Long Term	4.8	1.4	5.1	1.4	4.2	1.0
Pension Increases	2.6	(0.8)	2.9	(0.8)	2.4	(0.8)

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 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.

22 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.

23 POST BALANCE SHEET EVENTS

There were no adjusting post balance sheet events.

INDEPENDENT AUDITORS REPORT

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

We certify that we have audited the financial statements of Scottish Borders Council Pension Fund ("the Fund") for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements of the Funds ("the financial statements") comprise the fund account, the net assets statement and related notes. 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 2014/15 (the 2014/15 Code).

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 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Financial Officer of Scottish Borders Council and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer of Scottish Borders Council is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer of Scottish Borders Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the financial transactions of the fund during the year ended 31 March 2015, 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 2014/15 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.

Independent auditor's report to the members of Scottish Borders Council as administering body for Scottish Borders Council Pension Fund and the Accounts Commission for Scotland.
(continued)

Opinion on other prescribed matter

In our opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Hugh Harvie, for and on behalf of KPMG LLP, Statutory Auditor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2015

STATEMENT OF INVESTMENT PRINCIPLES

The key aspects of the Statement of Investment Principles (SIP) for the Scottish Borders Council Pension Fund are set out below. The full SIP was approved by the Pension Fund Committee on [18 June 2015] and a copy of this document can be found at: www.scotborders.gov.uk/pensions

1. The Fund's Objectives (Section 3, page 4 of SIP)

Primary Aim

1.1 The primary aim of the Fund is:

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

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

Funding Objectives

1.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

- i 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.
- ii To build up the required assets in a way that produces employer contributions, which are as stable as possible.

1.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

2. Investment Policy (Section 4, page 6 of SIP)

Investment Strategy

2.1 The Investment Strategy's primary aim is to deliver the funding objective in 1.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.

2.2 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.

2.3 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.

2.4 The Fund's current **total target is to generate a return of at least 2.7% above CPI inflation** assumed as the real discount rate at the actuarial valuation as at 31 March 2014.

3. Types of Investment (Section 5, page 9 of SIP)

3.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- UK Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions

3.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian

4. Investment Management Arrangements (Section 4, page 6 of SIP)

4.1 The agreed Strategic Asset Allocation for the Fund is currently as follows (Appendix 3, page 13 of SIP):

Asset Class	Manager	Strategic Benchmark %
UK Equity	UBS	12.6%
	Baillie Gifford	6.4%
Global Equity	Sub Total	19.0%
	Harris Associates	9.9%
	Baillie Gifford	21.7%
	Morgan Stanley	14.4%
	Sub Total	46.0%
Total Equity		65.0%
Bonds		
Alpha Opportunities	M&G	10.5%
Govt. Fixed Interests Bonds	M&G	2.25%
Corporate Fixed Interest Bonds	M&G	2.25%
	Total	15.0%
Alternatives		
Multi-Asset Alternatives Fund	LGT Partners	15.0%
Property	UBS	5.0%
	Total	20.0%
Cash		0.0%
Total		100.0%

- 4.2 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.3 The current investment management arrangements are set out below (Appendix 4, page 14 of SIP)

Asset Class	Manager	Performance Objective (all net of fees) relative to Benchmark Return	Benchmark Indices Used
UK Equity	UBS	+0.0%	FTSE All-Share Index
	Baillie Gifford	+1.0%	FTSE All-Share Index
Global Equity	Harris Associates	+2.5%	MSCI All Country World Index
	Baillie Gifford	+2.5%	MSCI AC World Index
	Morgan Stanley	Not Defined	MSCI World Net Index
Bonds	Alpha Opportunities	+3.5% - 5%	1 Month LIBOR
	Govt Fixed Interest Bonds	+0.75%	FTSE Actuaries UK Conventional Gilts All Stock Index
	Corporate Fixed Interest Bonds	+0.8%	iBoxx Sterling Non-Gilts Index
Multi-Asset Alternatives Fund	LGT Partners	+4.0%	LIBOR
Property	UBS	+0.75%	IPD UK PPFI All Balanced Funds Index

5. Risk Measurement and Management (Section 4, page 6 of SIP)

5.1 *Asset Allocation (Section 4.19 of SIP)*

The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.

5.2 *Investment Managers (Section 4.20 of SIP)*

To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark.

The investment managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or out performs their individual targets.

5.3 *Proper Advice (Section 4.21 of SIP)*

The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

Investment Consultant: AON Hewitt Limited

Actuaries: Barnett Waddingham

5.4 *Concentration Risk and Diversification (Section 4.22 of SIP)*

Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund's assets. In order to reduce this risk a spread of assets is held.

Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund. This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

5.5 *Transition Management Arrangements (Section 4.23 of SIP)*

The use of a specialist transition manager, currently State Street Global Markets, is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

5.6 *Currency Risk (Section 4.24 of SIP)*

A Passive Currency Hedging mandate to hedge 50% of the currency exposure is in place within the overseas equity portfolios. The key purpose of this is to reduce the short term volatility in the Fund's asset valuations which results from currency movements.

5.7 *Safe Keeping of Assets (Section 4.25 of SIP)*

The services of a global custodian, currently J.P. Morgan, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.

5.8 *Cashflow Risk and Realisation of Investments/Liquidity (Section 4.26 of SIP)*

The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.

6. *Environmental, Social and Corporate Governance Issues (Section 6, page 9 of SIP)*

6.1 The Committee believes that environmental, social and governance issues can affect the financial performance of companies and that it has a responsibility to take these issues seriously and where appropriate, to act upon them.

6.2 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore

encouraged to constructively engage with companies on issues which are consistent with the Fund's fiduciary responsibilities.

- 6.3 The Committee recognises its responsibility to exercise voting rights to ensure transparency and accountability in corporate governance.
- 6.4 The Fund's investment managers maintain close contact with the management of companies in which investments are held or contemplated and subject their affairs to considerable analysis and skilled scrutiny. In recognition of this activity, the Sub-Committee delegates to its managers all its voting and other rights attaching to Fund investments.
- 6.5 The investment managers have delegated powers to exercise such rights in the best financial interests of the Fund and would, in particular, expect them to vote appropriately at company Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 6.6 The Committee has, however, drawn the attention of managers to its general concern that the remuneration practices of companies should be patently fair and reasonable. It has asked that managers reflect such concern when voting shares in companies in which the Fund is directly invested. The Committee is content to allow its managers discretion on the voting of in-house pooled fund shares subject to referring any matters relating to the remuneration of Fund managers to it for direction.
- 6.7 The key highlights in terms of voting actions taken by investment managers is included as part of the quarterly investment manager report to the Committee by AON Hewitt.

7. Compliance with the Myners principles (Section 8, page 10 of SIP)

- 7.1 The statement of compliance with the six principles is set out in Appendix 5, page 15 of the SIP. It demonstrates that the Fund is in full compliance with all the six principles of:
 - i Effective Decision Making
 - ii Clear Objectives
 - iii Risk and Liabilities
 - iv Performance Assessment
 - v Responsible Ownership
 - vi Transparency and Reporting

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 2015. 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 2015/16 to 2017/18
- Actuarial Valuation Statement 2014

Fund Advisers

Actuaries:	Barnett Waddingham
Auditors:	KPMG
Bankers:	Bank of Scotland
Investment Consultancy:	AON Hewitt
Investment Custodians:	JP Morgan
Investment Managers:	Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G and Harris Associates
Additional Voluntary Contributions (AVC) Managers:	Standard Life

Contact Details

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

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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.scotborders.gov.uk/pensions

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

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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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