

Scottish Borders Council  
Pension Fund

# annual report and accounts

for the year to 31 March 2023



## CONTENTS

	<b>Page</b>
<b>Section 1</b>	<b>Management Commentary</b>
	Chairman's Report 4
	Management Commentary 5
	Key Trends 12
<b>Section 2</b>	<b>Governance</b>
	Scheme Administration 14
	Scheme Governance 14
	Risk Management 16
	Training Policy & Practice Statement 17
	Annual Governance Statement 18
	Annual Governance Compliance Statement 23
	Statement of Responsibilities 24
<b>Section 3</b>	<b>Financial Statements</b>
	Fund Account 32
	Net Assets Statement 33
	Notes to the Accounts 34
<b>Section 4</b>	<b>Administration</b>
	Administration Strategy 64
	Administration Performance 64
	Fund Membership 67
	Communications Policy and Performance 68
<b>Section 5</b>	<b>Funding</b>
	Funding Strategy Statement 72
	Actuarial Statement 72

<b>Section 6</b>	<b>Investment</b>	
	Statement of Investment Principles	<b>76</b>
	Investment Strategy	<b>77</b>
	Investment Performance	<b>81</b>
	Responsible Investment	<b>85</b>
<b>Section 7</b>	<b>Independent Auditor's Report</b>	<b>88</b>
<b>Contacts</b>		<b>94</b>

# **SECTION 1**

# **MANAGEMENT COMMENTARY**

## CHAIRMAN'S REPORT

### Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund (the 'Fund') for the year ended 31 March 2023. 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 the financial year 2022/23.

### Highlights of the Year

#### Pension Fund Committee/Pension Board

The Fund has continued to strengthen its governance and stewardship of the Fund over the year. This work was recognised as the Fund became a signatory of the UK Stewardship Code.

The Joint meetings of the Committee and Board continued as virtual meetings during 2022/23 ensuring all necessary governance and decision making continued.

The Investment and Performance Sub-Committee, met via Teams meetings with most of the Fund's investment managers during the year, which allowed the Committee full scrutiny and oversight of the assets under management.

#### Funding

The Fund's 2020 Actuarial Valuation resulted in a funding position of 110% and contribution rates maintained for the first 3 years, despite uncertainties arising from Court cases, such as the McCloud judgement and the LGPS cost cap mechanism. The Fund continues to monitor this position and the effect of the changes required to resolve the judgements. Although the value of the assets has decreased, the funding position has strengthened as the value of the liabilities decreased more due to higher interest rates. The Fund's 2023 Actuarial Valuation is currently underway, and the results will be published in next year's Annual Report and Accounts.

#### Investments

The volatile market conditions over the 12-month period caused by the escalation of Russia's conflict in Ukraine and swiftly tightening monetary policy globally has resulted in very difficult market environments. Over the 12-month period the Fund posted a negative

return of -4.9% and assets fell by £44.9m. However, the expectation is that the Fund's liabilities have fallen further than the assets over the period because of higher interest rates.

#### Statement of Responsible Investment

The Committee believes that a positive approach to Environmental, Social and Governance ('ESG') issues can positively affect the investment performance of the Fund. The Fund fully reviewed and updated its policy, to include key priorities and improved monitoring. The Fund also continues to monitor and work with all its managers to ensure ESG is fully integrated into all their investment decisions. The Fund undertook a full strategic asset review during 2021/22. The next full strategic asset review is scheduled for the end of 2023 once the Actuarial Valuation has been completed.

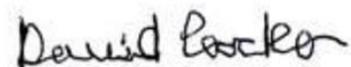
#### Pensions Administration

Key targets have been met by the Pension Administration team with all payments processed on time and annual benefit statements issued within the required timescales. The implementation of the Member Self Service portal continues as a welcome addition for scheme members which enhances communication and access to real time quotes with no detrimental impact on administrative resources.

Good progress has been made on the delivery of actions set out in the Fund's business plan. Updates were made to the Communication Policy, an improved reporting tool to help meet statutory reporting requirements has been implemented and an Overpayment Policy adopted by the Fund.

#### Acknowledgement

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



Chairman, Pension Fund Committee  
Scottish Borders Council

## **MANAGEMENT COMMENTARY SUMMARY**

### **OVERVIEW OF FUND BUSINESS**

Under the statutory provision of the Local Government Pension Scheme ('LGPS'), Scottish Borders Council is designated as an 'Administering Authority' and is required to operate and maintain a pension fund – the Scottish Borders Council Pension Fund (the 'Fund').

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by employee members and by participating employers. The Fund also receives income from its investments, which includes equities, bonds, property, infrastructure, private credit and diversified alternatives.

The Fund operates under the regulations of the LGPS, which is a public-sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the Fund, a person must be employed by a relevant employer and not eligible to join another public-sector pension scheme. Teachers are not included as they have a separate national pension scheme.

### **STRATEGY AND OBJECTIVES**

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

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

### **KEY NUMBERS OF THE FUND**

- Total membership of 12,561 (12,178 in 2021/22)
- Total pension paid £28.3m (£25.4m 2021/22)
- Total contributions received £24.3m (£22.6m 2021/22)
- Total investments held £866.0m (£909.4m 2021/22)
- Investment performance of -4.8% for 2022/23 (5.9% 2021/22)

### **GOVERNANCE**

The Pension Fund Committee aims to ensure the Fund is managed effectively, transparently and in compliance with regulations.

Prompted by the increased scrutiny of Local Government Pension Scheme ('LGPS') funds and increasing standards of governance introduced by legislation and the Pensions Regulator, an Independent Adviser was commissioned to undertake a review of the Governance of the Fund during October and November 2022. The Independent Adviser submitted a report 'Review of Governance of the Scottish Borders Council Pension Fund' with recommendations to the December 2022 meeting of the Pension Fund Committee and the Pension Fund Board. The report outlined a number of recommendations which concerned matters related to: Governance Structure and Decision Making; Objectives and Planning; Outcomes and Oversight; Risk Management; and Audit.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

As required within the Local Government Pension Scheme (Scotland) Regulations 2018 the Fund has an established Pension Fund Board which meets jointly with the Pension Fund Committee. The Pension Fund Board is responsible for assisting the Fund in securing compliance with the regulations and other legislation relating to the administration and governance of the Fund. The Pension Fund Board has 4 members representing the employers and 4 trade union members representing the employees.

The Fund, annually, agrees a three-year business plan which sets out the action plan to deliver the key work areas identified to ensure objectives continue to be met and any new legislative requirements are built into work plans. The actions are monitored and reported to the Joint Pension Fund Committee and Pension Fund Board. The key actions completed in 2022/23 were:

- The successful application for membership of the UK Stewardship Code during 2022/23
- Reviewed the Communication Strategy and Action Plan in line with best practice and technological advancements.
- Continued to proactively manage and engage the Fund's Employers with the Annual Employer Liaison Meeting held in March 2023
- Overpayment Policy to improve governance arrangements was approved by Pension Fund Committee in December 2022
- Continued promotion of self service to all active and deferred members including online payslips and P60s
- Pension Fund Committee approval of Governance Policy and Compliance Statement
- Reviewed and updated Responsible Investment Policy and annual reporting.
- Implementation of the decisions taken as part of the 2021/22 Investment Strategy Review including the funding of an allocation with the procured infrastructure manager.

The Guaranteed Minimum Pension reconciliation has also been further delayed, although progress has been made since last year, due to the Pensions Administration team having two new recruits during the year coupled with processing the recalculation of Pensions and Lump Sums following the late settlement of the Scottish Joint Council Pay Award for Scottish Borders Council employees, which was backdated to April 2022. There have been no further legislative changes announced in relation to the remedy for McCloud; the Fund awaits confirmation of the requirements before developing an action plan to avoid repeated requests for information from the Employers.

The Fund has agreed the following key areas of development and improvement within its 2023/24 Business Plan:

- Review the Fund's strategic assets allocation following the results of the 2023 Actuarial Valuation
- Develop and implement an effective Communication Strategy for the Fund
- Review of Employer covenants
- Ensure accuracy of pension records
- Promotion of self-service facility
- System improvements to support home working.
- Review services provided by IT providers to ensure data is secure and adheres to cyber security requirements.

- Review services provided externally to ensure that these represent best value to the Fund.

## **RISKS AND UNCERTAINTIES**

Awareness and management of risks is a key control of the Fund's strategic and operational activities. The Fund is committed to a strong control environment to ensure risks are identified, understood, managed and monitored appropriately.

A full risk register is maintained by the Fund in line with CIPFA guidance and the Council's approach to risk management. Each risk identified is assessed for likelihood and impact with no controls in place and after controls are applied. Further controls are identified, and progress monitored and reported to the Joint Pension Fund Committee and Pension Fund Board on a quarterly basis as part of Risk update reports. The Fund currently has 51 identified risks spread over Assets & investments, Employer, Resource & skill, Liability, Administrative, Regulatory & Compliance and Reputation. However, there is an exercise currently being undertaken to review the risk register with a view to recategorizing the risks and reducing the number.

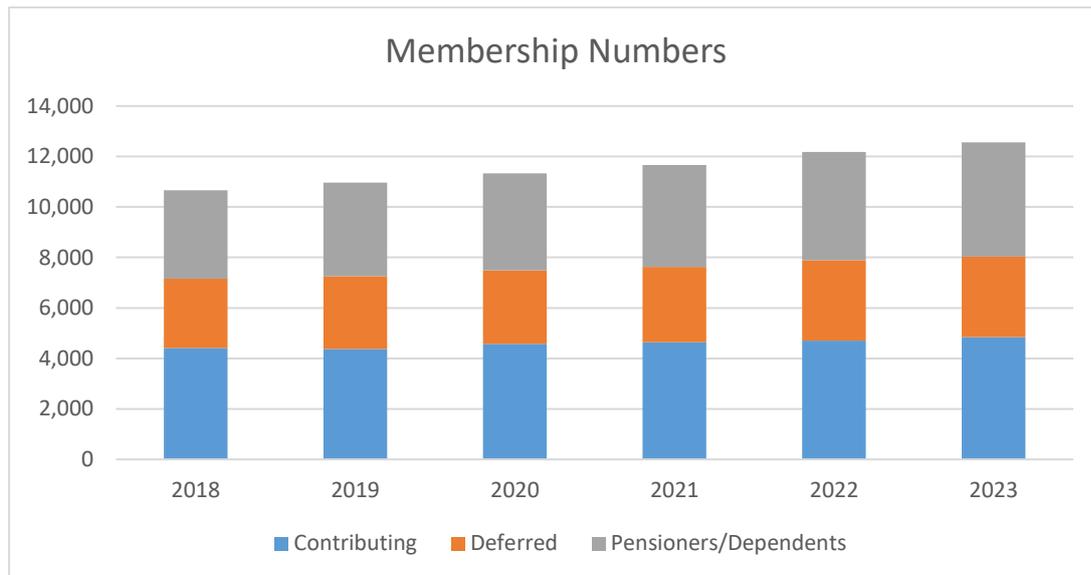
## **ADMINISTRATION AND MEMBERSHIP**

The Pension Administration Strategy sets out the performance standards required by both Scottish Borders Council, as the administrating authority and all employers of the Fund. The performance of the Fund against these standards is reported on an annual basis to the Joint Pension Fund Committee and Pension Fund Board. Performance against key performance indicators were very good with all targets being met, one instance where contributions were received late and no regulatory breaches which required to be reported to the Pensions Regulator.

The Fund has paid pensions benefits of £28.3m during the year (£25.4m in 2021/22) and received contributions of £24.3m (£22.6m in 2021/22). The Fund had a net withdrawal of £5.1m (£0.1m in 2021/22) during the year which was funded from the investments. Pensions have been paid on time and contributions have been collected in accordance with scheme regulations in all instances. The ability for staff to work from home has allowed the administration function to continue to perform as normal through the adoption of alternative working practices. Further information on the performance of Pension Administration and the Pension Administration Strategy can be found in section 4.

The maturing nature of the Fund is reflected in the membership numbers which are shown in the table over. Overall members at 31 March 2023 increased during the year to 12,561 but active contribution members now only represent 39% of the membership compared to 41% at 31 March 2018. The continued decrease in active members has resulted in the Fund looking to investments to provide income to ensure cash is available to pay the pensions as they are due.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023



### COMMUNICATION

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

### FUNDING

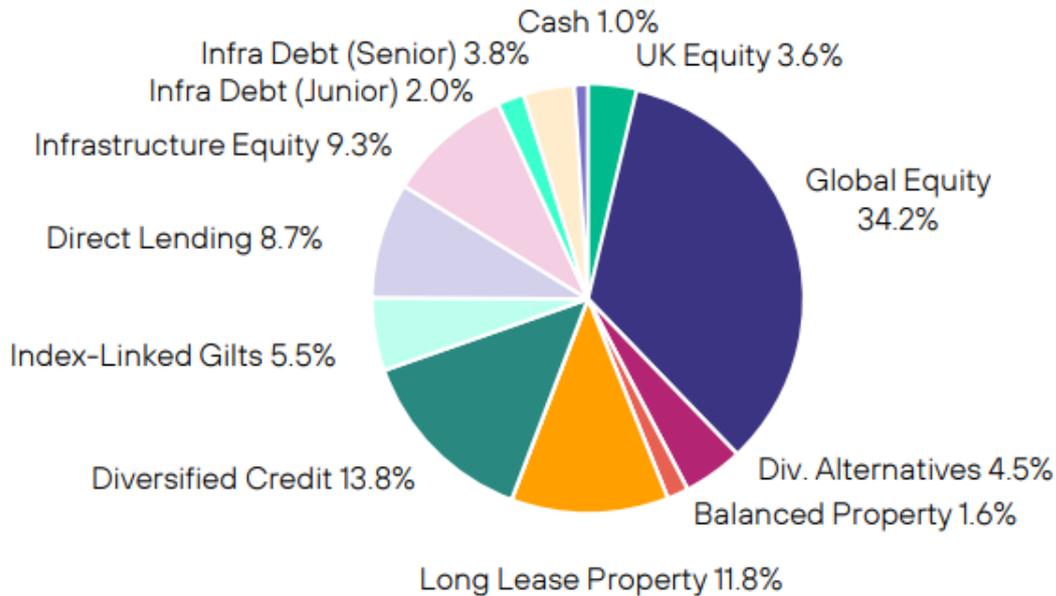
The three yearly Actuarial Valuation for 31 March 2020 was completed in March 2021 which resulted in a funding position of 110% (114% at 31 March 2017) for the Fund. The next formal valuation of the Fund as at 31 March 2023 is currently underway. Interim monitoring has been undertaken between the 2020 valuation and 31 March 2023. Monitoring of the funding position is undertaken on a quarterly basis and reported to the Pension Fund Committee.

Uncertainties caused by Guaranteed Minimum Pension reconciliation, the scheme cost cap mechanism and legal challenges on the grounds of age discrimination, arising from the McCloud judgement may have an impact on the funding position. The 2020 valuation has included allowance for McCloud but not cost cap. The impact of any changes required due to the cost cap mechanism are currently unknown and therefore not able to be valued.

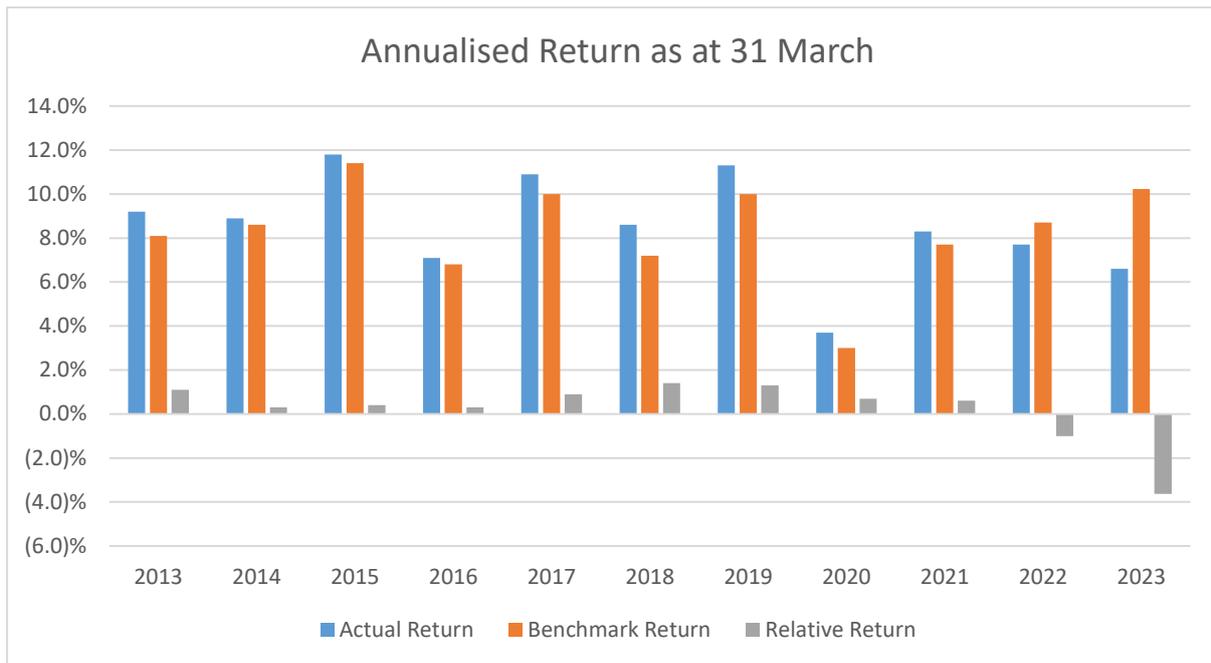
The Funding Strategy Statement approved on 17 March 2022 sets out the approach to funding. Further detail can be found in section 5 of the report and the full version of the Funding Strategy Statement is available via the Fund's website. [Fund Strategy Statement](#)

**INVESTMENT RETURNS**

The Fund’s investment objective is to support the Funding Strategy by adopting an investment strategy and structure, which incorporates an appropriate balance between risk and return. Following the 2020 Actuarial Valuation, the Committee approved a revised asset allocation and further refinements were made in March 2023, which is shown in the diagram below. The revised asset allocation further spreads investments over a number of key asset markets, thus further spreading the risk and increasing the diversification of the Fund. Good progress has been made during the year in the implementation of the revised strategy.



The Fund’s investment returns delivered a return of -4.8% (5.9% 2021/22) against a benchmark of 2.3% (10.6% 2021/22) for the year to 31 March 2023. Overall, the Fund’s assets decreased by £43.4m from 31 March 2022. The negative absolute and relative performance over the past 12 months was reflective of the volatile and difficult market conditions. Whilst the Fund’s assets have declined overall, the change in market conditions will have also resulted in a decline in the present value of the Fund’s liabilities, with the expectation being that the net position will be positive for the Fund. The table over details the annualised return for 2022/23.



The 12-month period to 31 March 2023 was defined by heightened inflation and rising interest rates in key developed market regions (US, UK, Europe). Against this backdrop, markets faced a challenging and volatile period as central bank rhetoric and investor sentiment fluctuated.

Work to fully implement the strategy has continued, with equity exposure decreasing and the funds being invested in longer term illiquid assets such as infrastructure equity and residential property.

The strategy has also resulted in increased levels of investment income which has allowed the Fund to meet the increasing net withdrawal for dealing with payments to members.

## **ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES**

The Fund has an overriding obligation to act in the best interest of the scheme beneficiaries. As part of this role the Fund believes that a positive approach to Environmental, Social and Corporate Governance issues can positively affect the financial performance of investments. The Fund has also undertaken a full review of its Responsible Investment Policy and on 17<sup>th</sup> March 2022 approved 6 key responsible investment objectives. These are.

- SDG 13 – Climate Change
- SDG 7 – Affordable & Clean Energy
- SDG 1 – No Poverty
- SDG 2 – Zero Hunger
- SDG 3 – Good Health & Well-being
- SDG 10 – Reduce Inequalities

These were left unchanged throughout 2022/23. Work has commenced in the assessment and collection of data to allow reporting and monitoring of SDG13 Climate Change and SDG 7 Affordable & Clean Energy. Due to the lack of robust measurement criteria or data the remaining objectives will be reviewed regularly as data collection is developed.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

The Fund continues to look for further opportunities to enhance its commitment to sustainability and climate change which will form key criterion in future investment and procurement decision making.

### **CLIMATE ACTION 100+**

The Fund, as a signatory, continued to support the work undertaken by Climate Action 100+ which is working with Investors and Fund Managers to reduce carbon emission and ensure the Paris Agreement targets are met. The three main aims are:

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

Further information on the Fund's investments can be found in section 6 of this report.

### **ACKNOWLEDGMENT**

The contribution and commitment of all elected members, employer and employee representatives and staff involved in ensuring the continued success of the Scottish Borders Council Pension Fund, particularly during this most challenging of years, is gratefully acknowledged.

**Councillor David Parker**  
**Chair**

**David Robertson**  
**Chief Executive**

**Suzanne Douglas CPFA**  
**Director of Finance &  
Procurement**

**Pension Fund Committee**

**Scottish Borders Council**

**Scottish Borders Council**

## KEY TRENDS

Membership	2018/19	2019/20	2020/21	2021/22	2022/23
Active Members	4,376	4,573	4,647	4,703	4,842
Deferred Members	2,878	2,909	2,977	3,194	3,187
Pensioners	3,707	3,856	4,040	4,281	4,532
Total Members	10,961	11,338	11,664	12,178	12,561

Investments	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Opening Net Value	685,681	731,048	712,319	859,794	909,381
Movement in year	45,367	(18,728)	147,475	49,587	(43,370)
Closing Net Value	731,048	712,319	859,794	909,381	866,011
Investment Income	13,314	13,938	12,749	17,600	16,284
Investment Fees	5,848	5,296	5,310	5,668	5,682

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Administrative costs	(391)	(363)	(352)	(378)	(450)
Oversight & Governance costs	(289)	(263)	(318)	(349)	(338)
Pensions Income	20,647	21,200	21,727	25,939	25,060
Pensions Expenditure	(24,257)	(26,555)	(28,296)	(26,071)	(30,163)
Net Pensions Cash flow	(3,610)	(5,355)	(6,569)	(132)	(5,103)

# **SECTION 2**

# **GOVERNANCE**

## SCHEME ADMINISTRATION

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

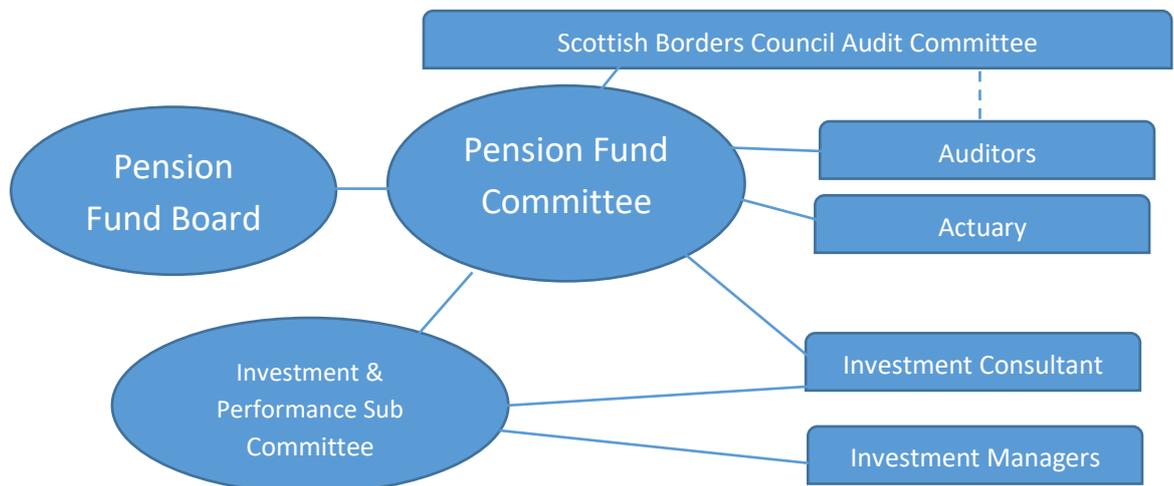
The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Scotland) Regulations 2018. The Fund adheres to Scottish Borders Council policies for managing conflicts of interests, codes of conducts and register of interests.

Suzanne Douglas – Director of Finance & Procurement is responsible for the financial administration of the Fund.

## SCHEME GOVERNANCE

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

Scottish Borders Council Pension Fund Governance:



**Pension Fund Committee** – is the main decision-making body for the Fund and is comprised of seven Scottish Borders Council Councillors: The Convener, one member of the Executive, three members of the Administration and two members of the opposition.

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

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

**Actuary** – provides advice on funding. This role is currently undertaken by Hymans Robertson.

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

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

**Investment Managers** – manage the investment portfolios.

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

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

### PENSION FUND COMMITTEE

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



Councillor David Parker - Chair



Councillor Simon Mountford – Vice Chair



Councillor Pam Brown  
From 26/5/2022



Councillor Watson McAteer  
from 26/5/2022



Councillor Carol Hamilton



Councillor Sandy Scott



Councillor Donald Moffat

Councillor Jim Brown to 4/5/2022

Councillor Gordon Edgar to 4/5/2022

### PENSION FUND BOARD

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

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

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

As of 31 March 2023 the Pension Fund Board membership comprised the following:

Employer Representatives:

- Councillor Julie Pirone-Scottish Borders Council from 5/5/2022
- Hazel Robertson – Borders College to August 2022
- Kirsty Robb – Borders College from September 2022
- Laura Steven - Live Borders
- Anthony Daye – South of Scotland Enterprise
- Councillor Sandy Aitchison -Scottish Borders Council 4/5/2022
- Linda Ross -Live Borders to 5/4/2022

Employee Representatives:

- David Bell – UNITE
- Malcolm Drysdale - GMB
- Marc Everett - UNISON
- Kay Marie Hughes – UNISON

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

### **INVESTMENT AND PERFORMANCE SUB-COMMITTEE**

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

### **RISK MANAGEMENT**

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

The Risk Register for the Fund has been developed in line with the CIPFA guidance “Managing Risk in the Local Government Pension Scheme” and the Council’s approach to risk management, which assesses risk using a scoring methodology based on likelihood and impact.

A full risk register review was undertaken in May 2022, with monitoring and reporting on a quarterly cycle to the Joint meetings of the Pension Fund Committee and Pension Fund Board. At its March 2023 joint meeting, the Pension Fund Committee and Pension Fund Board agreed to the proposal to refresh the Fund’s Risk Register.

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

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

Risk Category	Risk Assessment					
	Before Controls			After Controls		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	5	7	-	-	9	3
Employer	1	6	-	-	2	5
Resource & Skill	-	5	-	-	1	4
Liability	2	5	-	-	2	5
Administrative	-	8	-	-	1	7
Regulatory & Compliance	4	2	-	1	3	2
Reputation	2	4	-	-	2	4
<b>Total Number of Risks</b>	<b>14</b>	<b>37</b>	<b>0</b>	<b>1</b>	<b>20</b>	<b>30</b>

**RED -Very High (15-25)**

**AMBER – High (6-12)**

**GREEN – Low (1-5)**

The one risk remaining as a red assessment ‘After Controls’, as of 31 March 2023, is “Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures”. This risk will be reevaluated as part of the approved Fund’s Risk Register refresh. Further actions are required to implement the recommendations set out within the “Review of Governance of the Scottish Borders Council Pension Fund”, which was presented by the Independent Consultant at the December 2022 joint meeting of the Pension Fund Committee and Pension Fund Board.

## TRAINING POLICY & PRACTICE STATEMENT

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

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

The Training Policy applies to members of the Pension Fund Committee and the Pension Fund Board. It requires all members to complete the Pensions Regulator’s Toolkit within six months of joining the Pension Fund Board and to attend at least two training events a year. The Training Policy also requires an annual training plan to be agreed.

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

On 17 May 2023 a Training Day was organised for members of the Pension Fund Committee, Pension Fund Board and officers of the Council involved in the management of the Fund. The training was carried out in person and comprised of the following areas:

- Funding – preparation for the Actuarial Valuation as of 31 March 2023
- Investment – understanding the strategy for the Fund.
- Administration – how benefits are calculated and member service.
- Governance – understanding the structure of LGPS, roles and responsibilities of the various groups.

All members are also required to attend, as a minimum, two meetings of the joint Pension Fund Committee and Pension Fund Board a year. The table below shows all seven Members of the Pension Fund Committee and all eight members of the Pension Fund Board have met the attendance requirement for 2022/23.

No of meetings	Committee Members		Board Members	
	%	Number	%	Number
5 meetings	43%	3	12%	1
4 meetings	57%	4	50%	4
3 meetings	-	-	38%	3
2 meetings	-	-	-	-
Less than 2	-	-	-	-

## **ANNUAL GOVERNANCE STATEMENT**

The Local Government Pension Scheme (Scotland) Regulations 2018 requires Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Fund is the Governance Policy and Compliance Statement (as amended on 22 June 2023) which is available on the Council's website: [Governance Policy and Compliance Statement 2023](#)

## **Governance Framework**

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

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme for the Scottish Borders geographical area. The Council has acknowledged its responsibility for ensuring that there is a sound system of governance (incorporating the systems of internal control), and this is reflected in the Council's governance arrangements.
- b) The Council has delegated its responsibilities as Scheme Manager, to the Pension Fund Committee. The Members of the Pension Fund Committee act as quasi-trustees and oversee the management of the Fund. The overall responsibility of ensuring there is a sound system of governance remains with the Chief Executive.
- c) The Pension Fund Board meets jointly with the Pension Fund Committee and formalises the involvement of the employers and trade unions representing the membership. All members of the Pension Fund Committee and Pension Fund Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business Plan covering the period 2022/23 – 2024/25, to improve planning and monitoring of the performance of the Fund and to demonstrate the "Myners Principle" relating to effective decision making. The Business Plan supports the delivery of the objectives of the Fund which are to deliver a high-quality pension service to members that is managed effectively, transparently and is compliant. The Business Plan ensures actions are included to address issues raised in the Annual Governance Statement.
- e) The Fund appoints professional advisers and external service providers, covering investment advisory, custodian and actuarial services.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and Councillors embodied in procedural standing orders, financial regulations, Scheme of Delegation and Scheme of Administration. This is supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks and targets, and independent performance reviews of the Fund by the investment consultant and performance monitoring service provider.
- g) The Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the Risk Register to regular review.
- h) The Director of Finance & Procurement is responsible for ensuring the proper administration of the financial affairs of the Fund. This includes ensuring appropriate professional advice is sought and is given to the Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control. The Fund complies with the CIPFA Statement on "The Role of the Chief Financial Officer in Local Government 2016".
- i) The Director – People, Performance and Change is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved Pension Administration Strategy.

- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit 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 Fund, conducts an annual review of the effectiveness of its overall governance framework which is presented to the Audit Committee whose role includes high level oversight of the Fund's governance, risk management, and internal control arrangements.

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles, details of which are set out in the Governance Compliance Statement 2022-23 .

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

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

### **Internal Audit Opinion**

The Chief Officer Audit & Risk's opinion is that there are generally sound systems of governance, risk management and internal control operating within the Fund during 2022/23. Some areas for improvement were identified.

During 2022/23 the Internal Audit work included:

- a) An appraisal of the operation of corporate governance and risk management arrangements.
- b) A review of key controls including pension administration and financial management arrangements in place.
- c) A review of business plan objectives and outcomes.

### **(a) Corporate Governance and Risk Management**

The Fund has effective governance arrangements in place through the joint meetings of the Pension Fund Committee and the Pension Fund Board that support scrutiny and transparency of decisions made. A Skills and Knowledge self-assessment is carried out annually by Members, a Training Plan is proposed to meet those needs, and Members' participation in training events is monitored and reported to ensure Training policy commitments are met.

The Independent Adviser submitted a report 'Review of Governance of the Scottish Borders Council Pension Fund' with recommendations to the December 2022 meeting of the Pension Fund Committee and the Pension Fund Board. Those recommendations relating to Governance should also be considered and implemented. The Internal Audit review of the Fund's Governance Policy and Compliance Statement identified that minor modifications are required to reflect practices that are in operation.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

Identifying and managing risk is a cornerstone of effective management and the Risk Register for the Fund has been developed in line with CIPFA guidance “Managing Risk in the Local Government Pension Scheme”. The joint meetings of the Pension Fund Committee and Pension Board received risk management updates on a quarterly basis to demonstrate appropriate scrutiny and oversight of risk management, including in June 2022 the outcomes of a full risk review carried out in May 2022 supported by a full version of the risk register.

A clear relationship exists between risk management and the Business Plan, and the Risk Register incorporates Investment and ESG risks in line with the Policy Framework of the Fund. Overall, the Risk Register for the Fund contains too many risks and requires rationalising to ensure focus on the key risks. At its March 2023 joint meeting, the Pension Fund Committee and Pension Fund Board agreed to the proposal to refresh the Fund’s Risk Register. The Independent Adviser’s recommendations relating to risk should also be considered and implemented as part of the Risk Register refresh process. The latter will be facilitated by the Council’s Corporate Risk Officer to ensure resource is in place to support the refresh of the Fund’s Risk Register.

The Independent Adviser’s recommendations relating to Audit have been implemented during the preparation of the Internal Audit Annual Plan 2023/24 for the Fund, which was approved at the joint Pension Fund Committee and Pension Fund Board meeting on 21 March 2023; specifically, the increase in the allocation of Internal Audit resources needed to deliver the broader range of risk-based work.

The Internal Audit Annual Assurance Report 2022/23 has been used to inform the Fund’s 2022/23 Annual Governance Statement and Governance Compliance Statement. The Internal Audit independent assurance opinion has been incorporated in the Fund’s Annual Governance Statement within the Annual Report and Accounts 2022/23.

### **(b) Financial Governance and Key Controls**

There was testing of pensioner payments within Internal Audit work on Payroll to ensure transactions are valid, complete and accurate, and key controls to prevent fraud and error are operating effectively.

Overpayments of pensions totalled 20 cases amounting to £3k. These can mainly be attributed to the timing issue of payments being prepared ahead of the payment date, and notification being received of a death of a pensioner which would impact the payment. There is a successful process for recovery of these overpayments, which is managed sympathetically. There is a direct link with the DWP “Tell us once” initiative, so a person registering a death would not have to advise the Administration team too. This ensures that all reported deaths in the UK are matched against the Pensioners data sets to give early notifications.

A new Pensions Overpayment Policy has been approved by the joint Pension Fund Committee and Pension Fund Board at its meeting on 13 December 2022. The Pensions Overpayment Policy links to the Financial Regulations to support the sound financial governance arrangements in place.

Pensions data has been submitted as part of the Council’s participation in the National Fraud Initiative (‘NFI’) exercise for 2022/2023. Staff resources are in place to investigate any data matches to ascertain whether these are the result of error or fraud. This will be ongoing during 2023/24.

Ongoing enrolments to the Fund are undertaken by the Council on a monthly basis as part of the payroll run. Any staff meeting the eligibility criteria are enrolled and the appropriate

communication issued at that time. The re-enrolment and re-declaration process occurs every 3 years with the latest being undertaken in September 2022. A total of 48 staff were re-enrolled from a total employed staff of 5,296 at that time. Overall, the Council fully complies with the legislation (the Pensions Act 2008) to ensure that certain staff are automatically enrolled in a workplace pension, therefore mitigating the risk of enforcement action or penalties.

### **(c) Business Plan Improvements and Developments**

The 2022/23 – 2024/25 Business Plan for the Fund was approved by the Pension Fund Committee and Pension Fund Board at the joint meeting held on 29 June 2022. Included within the Business Plan were key objectives and actions with target dates. Having the Business Plan for the Fund is a good way of demonstrating compliance with the 'Myners Principle' relating to effective decision making.

The action plan is split into three objectives which support the strategic aims of the Fund:

- Set levels of employer contributions and investment returns that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund,
- Deliver a High-Quality Pension Service to Members.
- Ensure that the Fund is managed effectively, transparently and in compliance with legal requirements.

A Business Plan Performance Update, outlining progress on the Business Plan actions at mid-year, was presented to the Joint Pension Fund Committee and Pension Fund Board meeting on 13 December 2022. The Business Plan reflects both the Fund's Statement of Investment Principles ('SIP'), and the Pension Fund Committee's Environmental, Social and Governance ('ESG') beliefs and its approach on how ESG factors should be integrated in investment decision-making. The implementation of the ESG responsible investment principles is ongoing as some investment managers require time to adjust to the Fund's policy requirements.

One of the actions is the promotion of the Member Self Service facility ('MSS'). This provides direct access for active and deferred scheme members to view personalised pension data on the portal including the Annual Benefit Statement. Work is ongoing to increase uptake. The implementation of the updated version of MSS on a like for like basis is scheduled in 2023/24, subject to release from the software provider, as are other enhancements being developed.

External access to Business World ERP system for pension members to view payslips and P60s is in place. Work continues to promote this facility.

Follow-up on the above will continue as part of the delivery of the approved Internal Audit Annual Plan 2023/24 for the Fund.

### **Public Sector Internal Audit Standards and Quality Assurance**

The 2022/23 annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) demonstrates sufficient evidence that the Council's Internal Audit team, which also provides Internal Audit services to the Fund, conforms to the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards.

### **Improvement Areas of Governance**

The Pension Fund Committee agrees a three-year Business Plan on an annual basis to ensure the ongoing management and development of the Fund is in line with the longer-term policy, objectives and strategy of the Fund. The Business Plan sets out the key actions and sets timescales of each. The progress of the actions is reported mid-year to the Pension Fund Committee. The actions completed from the 2022/23 business plan are as follows.

- Completion of 2022/23 Training program
- Regular reviews of Risk Register
- No actions arising from the External Audit of the Annual Report & Accounts 2021/22
- Responding to consultations either individually or collectively with other Scottish LGPS Funds
- Signatories of the UK Stewardship Code
- Following the review of Strategic Asset Allocation completed in 2021/22 the implementation of the agreed strategy continued.

The following areas have been identified and included in the 2023/24 action plan submitted to the Joint Pension Fund Committee and Pension Fund Board for approval. These will enhance the existing governance arrangements:

- Continue to develop the knowledge and skills for all members of the Pension Fund Committee and Pension Fund Board
- Updating of all policy and strategy documents in line with the legislative changes
- Review and implementation of The Pension Regulators General Code of Practice
- Comprehensive review of Risk Register
- Complete actions outlined from the UK Stewardship Code and the independent review carried out.

Approved Scottish Borders Council Pension Fund Business Plan 2023/24-2025/26 from the Joint Pension Fund Committee and Pension Board meeting 22 June 2023. [SBC Business Plan Template 2023/24-2025/26](#)

## **STATEMENT OF RESPONSIBILITIES**

### **COUNCIL'S RESPONSIBILITIES**

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

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

### **Certification**

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

**Councillor David Parker**  
**Chair**  
**Pension Fund Committee**

**David Robertson**  
**Chief Executive**  
**Scottish Borders Council**

## **ANNUAL GOVERNANCE COMPLIANCE STATEMENT**

The Fund sets out its governance arrangements within the Governance Policy and Compliance Statement (as amended 22 June 2023).

The Local Government Pension Scheme (Scotland) Regulations 2018 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 following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Fund Board.

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**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

Principle		Full Compliance	Comments
<b>Structure</b>			
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 <b>Pension Fund Committee</b> (the 'Committee').</p> <p>The Committee comprises 7 elected Members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p>
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	<p>The <b>Pensions Fund Board</b> (the 'Board') formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board has eight members (four employer representatives and four trade union representatives) covering all pension fund members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board's Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The <b>Investment and Performance Sub-Committee</b> (the 'Sub-Committee') established under the Committee and its remit is set out in the Scheme of Administration. Membership of the Sub-Committee is seven elected Members from the Committee and two (non-voting) members from the Board.</p>
C	Where a secondary committee or panel has been established, the structure ensures effective	Yes	<p>Minutes of the Sub-Committee and any other Sub-Groups are submitted to the Committee for approval.</p> <p>Two members from the Board and all Members of the Committee are part of the</p>

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

Principle		Full Compliance	Comments
	communication across both levels		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.
<b>Committee Membership and Representation</b>			
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 the Committee 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, 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, meetings and training They are given full opportunity to contribute to the decision-making	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended annually).  The Board was established by Council on 2 April 2015. The Scheme of Administration for the Committee, and the Board Constitution, provide for joint meetings, with equal rights to receive

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

Principle		Full Compliance	Comments
	process, with or without voting rights.		papers and access meetings.
<b>Selection and role of lay members</b>			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected Members this is part of the Council's Code of Governance along with the Members' induction programme.  For all lay members, there is an induction course which explains the governance structure for the Fund, the roles and responsibilities of the Committee and Board members and the role of the advisers. In addition, the Fund's Training Policy provides for an annual training needs assessment
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	Part of the Council's Code of Governance requires the declaration of Members' interests for all committees as a standard agenda item.
<b>Voting</b>			
A	The policy of individual administrating 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
<b>Training/Facility time/Expenses</b>			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy	Yes	Members' expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of training related expenses.

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

Principle		Full Compliance	Comments
	on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.		
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The training policy for all members of the Board and Committee is approved annually.
C	The administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	The Annual Training Plan produced and implemented with logs of training attendance maintained.
<b>Meetings (frequency/quorum)</b>			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meetings of the Committee and Board are quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the main committee dates.	Yes	The Investment Sub-Committee meets every four months between the joint Committee/Board meetings.
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside	Yes	As lay members attend the Board and Committee meetings this formally provides for stakeholder engagement

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

Principle		Full Compliance	Comments
	of those arrangements by which the interests of key stakeholders can be represented.		
<b>Access</b>			
A	Subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members as detailed in the Scheme of Administration.
<b>Scope</b>			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out the Committee as having a remit which covers all matters relating to the Council's role as Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pensions Regulator.
<b>Publicity</b>			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest if wanting to be part of those arrangements.	Yes	Scottish Borders Council Pension Fund has a standalone website with all governance documents and Fund information. A link is provided to Minutes and public papers available via the Council's website.

# **SECTION 3**

# **FINANCIAL STATEMENTS**

## **DIRECTOR OF FINANCE & PROCUREMENT RESPONSIBILITIES**

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

In preparing the Annual Accounts, the Director of Finance & Procurement has:

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

The Director of Finance & Procurement has also:

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

I certify that the financial statements give a true and fair view of the financial position of the Fund as of 31 March 2023 and the transactions of the Fund for the year then ended. The unaudited accounts were issued on 30<sup>th</sup> June 2023.

Councillor David Parker

Chair

Pension Fund Committee

Suzanne Douglas CPFA

Director of Finance & Procurement

Scottish Borders Council

**FUND ACCOUNT for year ending 31 March 2023**

2021/22 £'000		2022/23 £'000	Notes
	<b>Dealings with members, employers and others directly involved in the scheme:</b>		
22,593	Contributions	24,318	7
3,346	Transfers in from other pension funds	742	8
25,939		25,060	
(25,390)	Benefits	(28,281)	9
(681)	Payments to and on account of leavers	(1,882)	10
(26,071)		(30,163)	
(132)	<b>Net Additions/(Withdrawals) from Dealings with Members</b>	(5,103)	
(6,395)	<b>Management expenses</b>	(5,997)	11
	<b>Return on Investments:</b>		
17,600	Investment Income	16,284	12
40,765	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	(49,598)	
(387)	Taxes on Income	(498)	
57,978	<b>Net Return on Investments</b>	(33,812)	
51,451	<b>Net Increase/(Decrease) in the Fund during the Year</b>	(44,912)	
859,694	Opening Net Assets of the Scheme	911,145	
911,145	<b>Closing Net Assets of the Scheme</b>	866,233	

Note 1-29 form part of the Financial Statements

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

**NET ASSETS STATEMENT as of 31 March 2023**

2021/22 £'000		2022/23 £'000	Notes
910,784	Investment Assets	866,189	14
(1,403)	Investment Liabilities	(178)	14
<b>909,381</b>	<b>Total net investment</b>	<b>866,011</b>	
	<b>Current Assets &amp; Liabilities</b>		
4,174	Current Assets	2,347	21
(2,410)	Current Liabilities	(2,125)	22
<b>1,764</b>		<b>222</b>	
<b>911,145</b>	<b>Net Assets of the Fund available to fund benefits at the period end</b>	<b>866,233</b>	

Notes 1 to 28 form part of these financial statements.

The Net Assets Statement represents the value of assets and liabilities as at 31 March 2023 (excluding liability to pay pensioners).

The unaudited accounts were issued on 30 June 2023 and the audited financial statements were authorised for issue by Suzanne Douglas on 28<sup>th</sup> September 2023.

Suzanne Douglas CPFA  
Director of Finance & Procurement  
Scottish Borders Council

## **NOTES TO THE ACCOUNTS**

### **1 DESCRIPTION OF THE FUND**

#### **A) General**

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

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

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

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

Organisations participating in the Fund include:

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

#### **B) Funding**

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

The Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions. For 2022/23 this was based on the valuation undertaken as at the 31 March 2020, 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, employers' contribution rates during 2022/23 ranged from 18% to 22%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ended 31 March 2023. From 1 April 2015 these contributions are based on the LGPS Regulations 2018 in line with the updated LGPS Scheme.

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

**C) Benefits**

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

The table below gives a summary of the scheme benefits:

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

- Annual revaluation and pensions increase in line with CPI inflation.
- Partners and dependents pensions
- Ill health protection
- Death in service protection

Further details can be found on the Fund's website. [Scottish Borders Council Pension Fund](#)

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

## **2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements summarise the Fund's transactions for the 2022/23 financial year and its position as at the 31 March 2023. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2022/23* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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 2018 to publish a Pension Fund Annual Report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

The accounts have been prepared on a going concern basis.

## **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Fund Account**

#### **Accruals Basis**

In accordance with the Code, the Fund's Financial Statements are generally prepared on an accruals basis. The Net Assets Statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly.

#### **Contributions Income**

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

#### **Transfers to and from other schemes**

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

#### **Investment Income**

##### **i) Interest income**

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

**ii) Dividend income**

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

**iii) Distributions from pooled funds**

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

**iv) Movement in the net market value of investments**

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

**Benefits Payable**

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

**Taxation**

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

**Administration Expenses**

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

**Investment Management Expenses**

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

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

**Net Assets Statement**

**Valuation of Investments**

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

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the close of business on 31 March.
- Unquoted investments – directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities

typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- Pooled investment vehicles – holdings in pooled investment vehicles, which are not traded on active markets are stated at bid price for funds with bid/offer spreads, or single price values where there are no bid/offer spreads, as at 31 March. Shares in other pooled arrangements have been valued at the latest available net asset value ('NAV'), determined in accordance with fair value principles. Private equity/debt and infrastructure assets are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

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

### **Foreign Currency Transactions**

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

### **Derivatives**

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

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

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

### **Cash and Cash Equivalents**

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

### **Actuarial Present Value of Promised Retirement Benefits**

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

### **Additional Voluntary Contributions ('AVCs')**

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

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

### **Accounting Standards that were issued but not yet adopted.**

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2023/24 Code:

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

## **4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Fund Liability**

The Fund liability is calculated every three years by the appointed Actuary (currently Hymans Robertson), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 26. Assumptions underpinning the valuations are agreed with the Actuary and are summarised on note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the financial statements at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 20).	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> <li>- A 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £13m.</li> <li>- A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £12m.</li> <li>- A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1m, and</li> <li>- A 1-year increase in assumed life expectancy would increase the liability by £27m</li> </ul> <p style="text-align: right;"><i>Source – IAS26 report 2023</i></p>
Portfolio of Level 3 assets held	Level 3 assets are those which do not have observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. Such valuations are prepared in accordance with the valuation principles of IFRS and GAAP. There is, however, a degree of estimation involved in the valuations.	The total assets held in Level 3 £344.4m and include Private Credit, Property, Infrastructure and Alternatives. Assurance has been obtained over the year end values. The value could move materially over the next few months depending on the market. Based on historical data and current market trends actual valuation could be between £379.1m and £309.7m

## 6 EVENTS AFTER THE REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events may be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the annual accounts are adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period - the annual accounts are not adjusted to reflect such events, but where this would have a material effect, the nature and estimated financial impact of such events are disclosed in the notes.

There are no known events since 31 March 2023 which directly affect these accounts.

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

**7 CONTRIBUTIONS RECEIVABLE**

2021/22				2022/23		
Employers	Members	Total		Employers	Members	Total
£'000	£'000	£'000		£'000	£'000	£'000
17,030	5,506	22,536	Normal	18,184	5,988	24,172
42	-	42	Special/Pension Fund Strain	138	-	138
-	15	15	Additional Voluntary	-	8	8
<b>17,072</b>	<b>5,521</b>	<b>22,593</b>	<b>Total</b>	<b>18,322</b>	<b>5,996</b>	<b>24,318</b>

2021/22		2022/23
£'000		£'000
18,597	Administering Authority	20,203
989	Scheduled Bodies	1,019
3,007	Admitted Bodies	3,096
<b>22,593</b>		<b>24,318</b>

**8 TRANSFERS IN**

There were no group transfers into the scheme during 2022/23 or 2021/22 and the total of £0.742m (2021/22: £3.346m) represents the total of transfer values in respect of individual members joining the scheme.

**9 BENEFITS PAYABLE**

2021/22		2022/23
£'000		£'000
20,410	Pension Payments	21,878
4,254	Commutation and lump sum retirement benefits	5,382
726	Lump Sums death benefits	1,021
<b>25,390</b>		<b>28,281</b>

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

2021/22		2022/23
£'000		£'000
22,361	Administering Authority	25,317
845	Scheduled Bodies	658
2,184	Admitted Bodies	2,306
<b>25,390</b>		<b>28,281</b>

**10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

2021/22		2022/23
£'000		£'000
82	Refunds to members leaving service	147
599	Individual Transfers	1,735
-	Group Transfers	-
<b>681</b>		<b>1,882</b>

**11 MANAGEMENT EXPENSES**

2021/22		2022/23
£'000		£'000
378	Administrative costs	450
5,668	Investment management expenses	5,209
349	Oversight and governance costs	338
<b>6,395</b>	<b>Total</b>	<b>5,997</b>

Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023

**11(a) Investment Management Expenses**

	Total	Management fees	Transaction cost
2022/23	£'000	£'000	£'000
Equities	535	508	27
Pooled Investments	2,986	2,289	697
Private Equity/Infrastructure	845	653	192
Property	770	465	305
<b>Total</b>	<b>5,136</b>	<b>3,915</b>	<b>1,221</b>
Custody fees	73		
<b>Total</b>	<b>5,209</b>		
	Total	Management fees	Transaction cost
2021/22	£'000	£'000	£'000
Equities	1,035	772	263
Pooled Investments	2,290	1,648	642
Private Equity/Infrastructure	1,400	1,274	126
Property	880	442	438
<b>Total</b>	<b>5,605</b>	<b>4,136</b>	<b>1,469</b>
Custody fees	63		
<b>Total</b>	<b>5,668</b>		

**12 INVESTMENT INCOME**

2021/22		2022/23
£'000		£'000
2,931	Dividends from equities	1,758
8,523	Income from Pooled Investment vehicles	7,831
6,146	Income from Pooled Property Investment vehicles	6,279
0	Interest on Cash Deposits	416
<b>17,600</b>		<b>16,284</b>

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

**13 OTHER FUND ACCOUNT DISCLOSURES**

**13(a) External Audit Costs**

In 2022/23 the agreed audit fee for the year was £24,880 (2021/22 £22,110). The external auditor is Audit Scotland.

**14 INVESTMENTS**

Market Value at 31 March 2022 £'000		Market Value at 31 March 2023 £'000
	<b>Investment Assets</b>	
<b>140,492</b>	Equities	<b>134,074</b>
<b>212,653</b>	Pooled Equities	<b>187,761</b>
<b>184,351</b>	Pooled Bonds	<b>165,909</b>
<b>116,036</b>	Pooled Other	<b>114,094</b>
<b>139,927</b>	Pooled Property Investments	<b>114,749</b>
<b>86,838</b>	Private Equity/Infrastructure	<b>130,036</b>
-	Diversified Alternatives	-
-	Derivative Contracts	-
<b>28,737</b>	Cash Deposits	<b>18,694</b>
<b>858</b>	Investment Income Due	<b>817</b>
<b>892</b>	Amounts receivable for sales	<b>55</b>
<b>910,784</b>	<b>Total Investment Assets</b>	<b>866,189</b>
	<b>Investment Liabilities</b>	
<b>(1,403)</b>	Amounts payable for purchases	<b>(178)</b>
<b>909,381</b>	<b>Net Investment Assets</b>	<b>866,011</b>

**14(a) Reconciliation of Movement in Investment and Derivatives**

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

	Opening Market Value 1 April 2022 £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value 31 March 2023 £'000
Equities	<b>140,492</b>	21,407	(19,906)	(7,919)	<b>134,074</b>
Pooled Investments	<b>513,040</b>	33,968	(57,116)	(22,128)	<b>467,764</b>
Pooled Property Investments	<b>139,927</b>	-	(1,897)	(23,281)	<b>114,749</b>

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

Private Equity/Infrastructure	<b>86,838</b>	42,847	(3,351)	3,702	<b>130,036</b>
Derivative Contracts	<b>0</b>	-	(1)	1	-
	<b>880,297</b>	98,222	(82,271)	(49,625)	<b>846,623</b>
<b>Other Investment Balances</b>					
Cash Deposits	<b>28,737</b>			21	<b>18,694</b>
Amount receivable for sales	<b>892</b>			2	<b>55</b>
Investment Income due	<b>858</b>				<b>817</b>
Spot FX Contract	-			5	
Amount Payable on Purchase	<b>(1,403)</b>			(1)	<b>(178)</b>
<b>Net Investments</b>	<b>909,381</b>			(49,598)	<b>866,011</b>

As per CIPFA disclosures, the change to market value during year intentionally does not balance opening/closing market values.

**Significant Transactions during the year:**

The Fund approved a revised Investment Strategy approved in June 2021. The review maintained the allocation for equities but approved the movement of the passive equities into a ESG focused passive fund and the movement of Baillie Gifford Global Equities into their Paris Aligned Global Equity Fund. The review also introduced an allocation to Residential Housing, increased the allocation to Long Lease Property and increased the allocation to Infrastructure. The Fund has made good progress on the implementation of these changes with the full funding of the new ESG passive equity fund with LGIM and has fully implemented the increased allocation to Long Lease Property with BlackRock. The infrastructure allocation has also been fully funded with IFM.

**14(b) Investment Analysed by Fund Managers**

Investment management was undertaken on behalf of the Fund during the financial year by 11 firms of investment managers (this excludes the managers used through the collaboration with the Lothian Pension Fund ('LPF')) and these are shown below. The Fund has also during 2022/23, continued to make investments into Infrastructure, via collaborative working with the Lothian Pension Fund and directly with Macquarie and IFM. As at 31 March 2023 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

31 March 2022				31 March 2023	
£'000	%			£'000	%
29,134	3.2	Baillie Gifford	UK Equities	31,138	3.6
114,705	12.6	Baillie Gifford	Global Equities	106,205	12.3
118,980	13.0	Morgan Stanley	Pooled Fund - Global Equities	95,028	11.0
93,673	10.3	LGIM	Pooled Fund – Passive Global Equities	92,733	10.7
117,271	12.9	M&G	Pooled Fund - Diversified Income	118,834	13.7
67,080	7.3	M&G	Pooled Fund - Bonds	47,075	5.4
26,563	2.9	UBS	Pooled Fund - Property	13,664	1.6
121,500	13.3	BlackRock	Pooled Fund – Property	101,188	11.7
67,882	7.4	LGT	Pooled Fund - Alternatives	38,833	4.5
31,517	3.5	Partners Group	Pooled Fund – Private Credit	48,306	5.6
15,578	1.7	Permira	Pooled Fund – Private Credit	26,096	3.0
33,787	3.7	LPF	Infrastructure Equity	49,628	5.7
53,053	5.8	Macquarie	Pooled Fund -Infrastructure Debt	49,873	5.8
0	0	IFM	Pooled Fund – Infrastructure Debt	30,535	3.5
18,658	2.4	Internal	Internally Managed Cash & Investments	16,875	1.9
<b>909,381</b>				<b>866,011</b>	

The benchmarks and performance targets for each manager as at the 31 March 2023 are contained in the Statement of Investment Principles published on the Fund's website.

**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 Fund at 31 March 2023. Each of the investments comprises units in a managed fund.

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

	As at 31 March 2022		As at 31 March 2023	
	£'000	% of Fund	£'000	% of Fund
M&G Alpha Opportunities Fund	117,271	12.9	118,834	13.7
BlackRock – Long Lease Property	121,500	13.4	101,188	11.7
Morgan Stanley Global Brands Fund	118,980	13.0	95,028	11.0
LGIM – Future World Global Equity Index	93,673	10.3	92,733	10.7
Macquarie	53,053	5.8	49,873	5.8
Partners Group	31,517	3.5	48,306	5.6
M&G Index Linked	67,080	7.3	47,075	5.4

### **Fund Performance**

The total Fund return for the year was -4.8% with a relative return under benchmark of 2.3%. Over three years the Fund has generated an annualised return of 6.6% per annum, with a relative return under benchmark of 10.2% per annum. Further information on this is contained in Section 6 - Investments.

### **14(c) Stock Lending**

The Fund may participate in the stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2023 stock with a market value of £3.6m was on loan.

### **14(d) Property Holdings**

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

## **15 ANALYSIS OF DERIVATIVES**

There were no derivatives held at 31 March 2023 or 31 March 2022.

## **16 FAIR VALUE BASIS OF VALUATION**

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

1. Level 1 - are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities and unit trusts. Prices are quoted at bid prices.
2. Level 2 - are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

Level 3 - are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

**16(a) Fair Value Hierarchy**

Values as at 31 March 2023	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£000's	£000's	£000's
<b>Financial assets at fair value through profit &amp; loss</b>				
Equities	134,074	0	0	134,074
Pooled Investments	260,937	93,626	113,201	467,764
Pooled Property Investments	0	13,563	101,186	114,749
Private Equity/Infrastructure	0	0	130,036	130,036
Cash Deposits	18,694	0	0	18,694
Other Investment assets	0	0	0	0
Investment Income due	817	0	0	817
Amounts receivable for sales	0	55	0	55
<b>Net Investment Assets</b>	<b>414,522</b>	<b>107,244</b>	<b>344,423</b>	<b>866,189</b>
<b>Financial liabilities at fair value through profit &amp; loss</b>				
Payable for investment purchase	0	(178)	0	(178)
<b>Total</b>	<b>414,522</b>	<b>107,066</b>	<b>344,423</b>	<b>866,011</b>

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

Values as at 31 March 2022 (restated)	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£000's	£000's	£000's
<b>Financial assets at fair value through profit &amp; loss</b>				
Equities	139,802	-	690	140,492
Pooled Investments	303,330	94,835	114,875	513,040
Pooled Property Investments	-	18,610	121,317	139,927
Private Equity/Infrastructure	-	-	86,838	86,838
Cash Deposits	28,737	-	-	28,737
Investment Income due	-	-	-	-
Amounts receivable for sales	858	-	-	858
<b>Net Investment Assets</b>	-	892	-	892
<b>Financial liabilities at fair value through profit &amp; loss</b>	<b>472,727</b>	<b>114,337</b>	<b>323,720</b>	<b>910,784</b>
Payable for investment purchase		(1,403)		(1,403)
<b>Total</b>	<b>472,727</b>	<b>112,934</b>	<b>323,720</b>	<b>909,381</b>

The note was updated to reflect a movement of Level 3 investments from private equity/infrastructure to pooled investments following updated information from Northern Trust.

**16(b) Transfers between Levels 1 and 2**

There have been no funds transferred from level 1 to level 2 during the year.

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

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

	Market Value 31 March 2022 £'000	Transfer in to level 3 £000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2023 £'000
Overseas Venture Capital	9,904	0	11,337	(2,150)	821	1,671	21,583
Overseas Equity Funds	67,883	0	0	(30,000)	(6,833)	7,750	38,800
Private Credit Funds	46,993	0	33,290	(6,769)	1,234	(346)	74,402
UK Property	121,317	0	0	(458)	(19,673)	0	101,186
UK Venture Capital	76,933	0	32,119	(1,201)	601	0	108,452
Overseas Equities	690	0	0	(215)	140	(615)	0
<b>TOTAL</b>	<b>323,720</b>	<b>0</b>	<b>76,746</b>	<b>(40,793)</b>	<b>(23,710)</b>	<b>8,460</b>	<b>344,423</b>
	Market Value 1 April 2021 £'000	Transfer in to level 3 £000	Purchases during year & derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains/ (losses) £'000	Realised gains/ (losses) £'000	Market Value 31 March 2022 £'000
Overseas Venture Capital	9,985		2,063	(3,264)	391	729	9,904
Overseas Equity Funds	59,822		34	-	8,027	-	67,883
Private Credit funds	50,916		10,508	(13,806)	(440)	(185)	46,993
UK Property	65,505		54,265	(7,909)	8,656	800	121,317
UK Venture Capital	59,705		15,696	(2,146)	3,170	508	76,933
Overseas Equities	-	830	-	-	(140)	-	690
<b>TOTAL</b>	<b>245,933</b>	<b>830</b>	<b>82,566</b>	<b>(27,125)</b>	<b>19,664</b>	<b>1,852</b>	<b>323,720</b>

There have been no funds transferred to Level 3 during the year.

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

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

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

**Sensitivity of Assets Valued at Level 3**

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined the valuation methods described above are likely to be accurate within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2023.

	Assessed valuation range (+/-) %	Value at 31 March 2023 £'000	Value on increase £'000	Value on decrease £'000
Overseas Venture Capital	15.0	21,583	24,820	18,346
Overseas Equities Fund	13.5	38,800	44,038	33,562
Private Credit	10.5	74,402	82,214	66,590
UK Property	8.0	101,186	109,281	93,091
UK Venture Capital	9.5	108,452	118,755	98,149
Overseas Equities	5.5	0	0	0
<b>Total</b>		<b>344,423</b>	<b>379,108</b>	<b>309,738</b>

**17 CLASSIFICATION OF FINANCIAL INSTRUMENTS**

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

31 March 2022				31 March 2023		
Fair value through profit & loss £'000	Financial Assets at amortised cost £'000	Financial Liabilities at amortised cost £'000		Fair value through profit & loss £'000	Financial Assets at amortised cost £'000	Financial Liabilities at amortised cost £'000
			<b>Financial assets</b>			
140,492	-	-	Equities	134,074	-	-
513,040	-	-	Pooled Investments	467,764	-	-
139,927	-	-	Pooled Property Investments	114,749	-	-

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

86,838	-	-	Infrastructure	130,036	-	-
-	28,737	-	Cash	-	18,694	-
-	858	-	Other Investment balances	-	817	-
-	892	-	Debtors	-	55	-
<b>880,297</b>	<b>30,487</b>	<b>-</b>		<b>846,623</b>	<b>19,566</b>	
			<b>Financial Liabilities</b>			
-		(1,403)	Creditors	-		(178)
		<b>(1,403)</b>	<b>Total</b>			<b>(178)</b>
<b>909,381</b>				<b>866,011</b>		

**17(a) Net Gains and Losses on Financial Instruments**

31 March 2022		31 March 2023
£000		£000
	<b>Financial assets</b>	
41,089	Designated at fair value through profit & loss	(49,625)
11	Loans & receivables	28
	<b>Financial Liabilities</b>	
1	Fair value through profit & Loss	0
(336)	Loans & receivables	(1)
<b>40,765</b>	<b>Total</b>	<b>(49,598)</b>

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

**18 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

**Risk and Risk Management**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity

for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

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

### **Market Risk**

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

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

### **Other Price Risk**

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

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

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

### **Other Price Risk – Sensitivity Analysis**

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

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

Asset Type	Potential Market Movement %
UK Equities	20.5
Global Equities	20.3
UK Bonds	11.8
Property	8.6
Alternatives	10.5
Cash	1.5

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 23 £'000	+/- % Change *	Value on Increase £'000	Value on Decrease £'000
UK Equities	31,138	20.5	37,521	24,755
Global Equities	293,966	20.3	353,641	234,291
UK Bonds	47,075	11.8	52,630	41,520
Property	114,852	8.6	124,729	104,975
Alternatives	372,134	10.5	411,208	333,060
Cash	6,846	1.5	6,949	6,743
<b>Total Assets</b>	<b>866,011</b>		<b>986,678</b>	<b>745,344</b>

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

### **Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or 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 2022 and 31 March 2023 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:

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

Asset Type	At 31 March 2022	At 31 March 2023
	£'000	£'000
Cash and Cash Equivalents	<b>21,310</b>	<b>8,659</b>

**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 23 £'000	Effect on Asset Values	
		Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move -100 BPS £'000
Cash and Cash Equivalents	8,659	87	(87)

**Currency Risk**

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

The following table summarises the Fund's currency exposure at 31 March 2023:

Currency exposure by asset type	As 31 March 2023 £'000
Overseas Equities	101,855
Overseas Fixed Income Funds	118,834
Overseas Equity Funds	226,561
Overseas venture capital	21,583
<b>Total</b>	<b>468,833</b>

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

**Currency risk – sensitivity analysis**

Asset Type	Value as at 31 March 23 £'000	+/- % Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	101,855	9.5	111,531	92,179
Overseas Fixed income	118,834	8.3	128,697	108,971
Overseas Equity Funds	226,561	9.4	247,858	205,264
Overseas venture capital	21,583	8.8	23,482	19,684
<b>Total Assets</b>	<b>468,833</b>		<b>511,568</b>	<b>426,098</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 addressed within the Council's Annual Treasury Strategy and this document sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2023, including current account cash, was £2.2m (31 March 2022: £2.9m). This was held with the following institutions:

	Rating	Balance at 31 March 2022 £'000	Balance at 31 March 2023 £'000
<b>Bank Current Accounts</b>			
Royal Bank of Scotland	A+	2,967	2,160
Northern Trust	AA	18,343	6,499
<b>Total</b>		<b>21,310</b>	<b>8,659</b>

**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.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

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 into cash. As at 31 March 2023, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

### 19 FUNDING ARRANGEMENTS

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

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

#### 2020 Actuarial Valuation

The 2020 Actuarial Valuation was undertaken for the Fund as at 31 March 2020 (full report available on the Fund's website) [Actuarial valuation report - 2020](#). The Actuarial Valuation was completed during the financial year 2020/21 by the Fund's actuaries, Hymans Robertson. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018.

The funding level of the Fund as at the 31 March 2020 was 110%, compared to the 31 March 2017 valuation of 114% and this corresponded to a surplus of £63m. The following table summarises the funding position:

Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2017 £m	2020 £m
Value of the Scheme Liabilities	(573)	<b>(650)</b>
Smoothed Asset Value	654	<b>713</b>
<b>Surplus/ (Deficit)</b>	<b>81</b>	<b>63</b>
<b>Funding Level</b>	<b>114%</b>	<b>110%</b>

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 31 March 2023.

#### 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 2020) were:

	2017 Valuation	2020 Valuation
	% p.a.	% p.a.
Investment Return	5.0	3.8
Pay Increases – Long Term	3.8	2.6
Pension Increases	2.8	1.9
Discount Rate	5.0	3.8

### Demographic Assumptions

The mortality assumptions used and applied to all members are bespoke set of Vita Curves tailored to fit the membership profile of the Fund. The assumptions are shown below.

Life Expectancy after age 65		31 March 2017	31 March 2020
Pensioners	Male	21.7	20.9
	Female	24.3	23.5
Non-Pensioners	Male	23.5	21.9
	Female	26.2	25.4

### 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.

### 50:50 option

It is assumed that 0% of active members will take up the 50:50 option in the LGPS 2014 scheme.

## 20 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the Actuarial 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 Actuarial 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.

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

	Net Pension Asset/(Liability) as at:		
	31 March 2021 £m	31 March 2022 £m	31 March 2023 £m
Present value of the defined benefit obligations	(1,088)	(1,057)	(731)
Fair Value of Fund Assets* (bid value)	860	909	866
Net Asset/(Liability)	(228)	(148)	135

\* Please note the Employer's fair value of plan assets is approximately 85% of the Fund's total.

The McCloud judgement, which relates to age discrimination arising from public sector pension scheme transition arrangements has been included in the obligations figures above. The obligations also include a calculation for the Guaranteed Minimum Pension ('GMP') equalisation which guidance from Treasury is awaited. The GMP reconciliation exercise is still ongoing but is unlikely to be significant, no allowance has therefore been made in the obligations. The allowance included in the obligations 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 2021	At 31 March 2022	At 31 March 2023
	% p.a.	% p.a.	% p.a.
Discount Rate	2.00	<b>2.70</b>	<b>4.75</b>
Pay Increases – Long Term	3.55	<b>3.90</b>	<b>3.65</b>
Pension Increases	2.85	<b>3.20</b>	<b>2.95</b>

As noted above, liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2020 Actuarial Valuation (see Note 19) because IAS 19 stipulates a discount rate, rather than a rate that reflects the market rate for investment returns on the Fund's assets.

**21 CURRENT ASSETS**

Current Assets	As 31 March 2022 £'000	As 31 March 2023 £'000
<b>Short term debtors</b>		
Contributions Due – Employees	22	0
Contributions Due - Employers	67	0
	<b>89</b>	<b>0</b>
Transfer value receivable (joiners)	1,013	73
Sundry Debtors	13	0
Prepayments	92	114
<b>Total</b>	<b>1,207</b>	<b>187</b>
<b>Cash Balances</b>	<b>2,967</b>	<b>2,160</b>
<b>Total</b>	<b>4,174</b>	<b>2,347</b>

**22 CURRENT LIABILITIES**

Current Liabilities	As 31 March 2022 £'000	As 31 March 2023 £'000
Transfer value payable (leavers)	258	272
Sundry Creditors	1,582	987
Benefits payable	570	866
<b>Total</b>	<b>2,410</b>	<b>2,125</b>

**23 ADDITIONAL VOLUNTARY CONTRIBUTIONS ('AVCs')**

AVCs 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 2023 was £2.285m (2022 £1.949m). During the year contributions in totalled £0.653m, while payments out of the AVC fund totalled £0.299m. In accordance with regulation 4(2)(b) of the Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SI 2010/233), AVCs are not included in the Pension Fund balance sheet.

**24 AGENCY SERVICES**

There are no agency service agreements in place.

**25 RELATED PARTY TRANSACTIONS**

During the year, the Fund had an average balance of £0.7m (2022: £1.40m) of cash administered by Scottish Borders Council within separate external banking arrangements. The Council charged the Pension Fund £0.320m (2022 £0.320m) in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Fund

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

balance due to Scottish Borders Council by the Fund at the balance sheet date and disclosed in the net assets statement was as follows:

As at 31 March	2022 £'000	2023 £'000
Due (to)/from Scottish Borders Council	(50)	(253)

### Governance

Five members of the Pension Fund Committee were active members of the Pension Fund as at 31 March 2023. Two members of the Pension Fund Committee were in receipt of pension benefits from the Fund.

### 26 KEY MANAGEMENT PERSONNEL

The key management personnel, of the Fund during 2021/22 was Scottish Borders Council Director - Finance & Corporate Governance. During 2022/23 this continued from April to July, from August this management responsibility passed to the Council's Acting Chief Financial Officer. Total remuneration payable is set out below.

As the Fund does not employ any staff directly a full remuneration report is not required.

31 March 2022 £000's		31 March 2023 £000's
113	Short-term benefits	102
-	Post-employment benefits	-
5	Other long-term benefits	10
-	Termination benefits	-
118	Total	112

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

### 27 CONTINGENT ASSETS

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

### 28 CONTINGENT LIABILITES

#### Guaranteed Minimum Pension Equalisation

On 26 October 2018, the High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. The Fund recognises the potential for liabilities arising from GMP equalisation. As guidance has not yet been issued by the Treasury it is not possible to quantify the impact this will have on the Fund at this time, however, an allowance for full GMP indexation was included within the 31 March 2020 funding valuation position and therefore the allowance is automatically included within the 31 March 2023 accounts.

**Guaranteed Minimum Pension Reconciliation**

The exercise known as GMP Reconciliation to reconcile HM Revenue contracted out records with those of pension funds is reaching a conclusion. The full cost implication of this is not yet known. Scottish Ministers legislated that any LGPS pensions that have been overpaid due to incorrect GMPs being held should not be reduced. Final information has been received from HMRC and the outstanding cases will be added to the Pensions Administration System, this has been delayed since 2021-22 due to other competing priorities.

**Goodwin**

The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e., where the female member died) on or after 5 December 2005. It is too early to know what the likely effect may be on LGPS members' benefits at this time.

# **SECTION 4**

# **ADMINISTRATION**

## PENSION ADMINISTRATION STRATEGY

The Pension Administration Strategy approved in 14 December 2021 sets out the procedures and performance standards required by both Scottish Borders Council, as Administering Authority and the employers with the Fund. The procedures and performance standards are agreed to ensure the efficient and effective administration of the pension scheme. The strategy aims to ensure that.

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

## PERFORMANCE

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

The performance for the year to 31 March 2023 is set out below.

### Employer Performance Measures

#### Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	905	100%
Change notification – within 20 days	950	100%
Retirement info – at least 20 working days before	158	100%
Early leaver notification – within 20 working days	571	100%
Death in service notification – within 10 working days	4	100%

### Contribution Payments

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

Employer Body	By Target Date	Late	% On Time
Scottish Borders Council	12	-	100%
Visit Scotland	12	-	100%
Borders College	12	-	100%
Scottish Borders Housing Association	12	-	100%

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

Jedburgh Leisure Facilities Trust	12	1	91.67%
Borders Sport and Leisure Trust	12	-	100%
AMEY Community Limited	12	-	100%
SB Cares	12	-	100%
CGI	12	-	100%
South of Scotland Enterprise	13	-	100%

There was one late payment during the year, this payment was received one day later than the required date, we will monitor this employer going forward and take appropriate action should this occur again in the future.

### Administering Authority Performance Measures

#### Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	130	20 days	69.23%
Estimates – Transfer Out	55	20 days	72.72%
Estimate – All Other	1,417	10 days	

With the continuation of hybrid working staff, it was accepted that it was not going to be possible to record all queries received as in previous years. We also saw a further move to more queries coming in via email and Members Self Service, which is reflected in the table below.

Type of Query	Volume	Target	%age Met
Phone Calls logged	84	5 days	100%
Phone Calls to team	3,388	Not measured	
Emails to <a href="mailto:pensions@scotborders.gov.uk">pensions@scotborders.gov.uk</a> mailbox	9,880	Not measured	
Emails to team members directly	7,704	Not measured	
Correspondence via Members Self Service	1,921	Not measured	
Total	22,977		

**Scottish Borders Council Pension Fund**  
**Annual Report and Accounts for the year to 31 March 2023**

**Other Measures**

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	21 March 2023
Benefit Statements	by end of August	Issued by 24 August 2022

The eighth liaison meeting, held virtually, with all Admitted and Scheduled Bodies took place during 2022/23 and re-enforced the changes that had been made to the annual reporting with the Fund Actuary from the 2020/21-year end and afforded the employers the chance to ask questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

The Annual Benefit Statements for Active and Deferred were loaded into the Member Self Service (MSS) portal. Communications were issued via the scheme employers to alert scheme members that this was now available. All Deferred Members have been invited to sign up for MSS and were advised that they will be published online going forward. There have been regular reminders issued to those not yet signed up and requests made via employers to encourage their scheme members to sign up. This will be an ongoing exercise.

**Key Administration Tasks**

Task	Total received
New entrants	836
Early leavers	571
Retirements	317
Deaths in service	4
Deaths in deferment	4
Deaths in retirement	129
New Widows(ers), Child Pensions	51
Estimates	1,417
Pension credit members	0
Pay all Pensioners on 15th of the month or prior working day when 15th is a non-banking day	100% achieved

**Member Self Service Statistics**

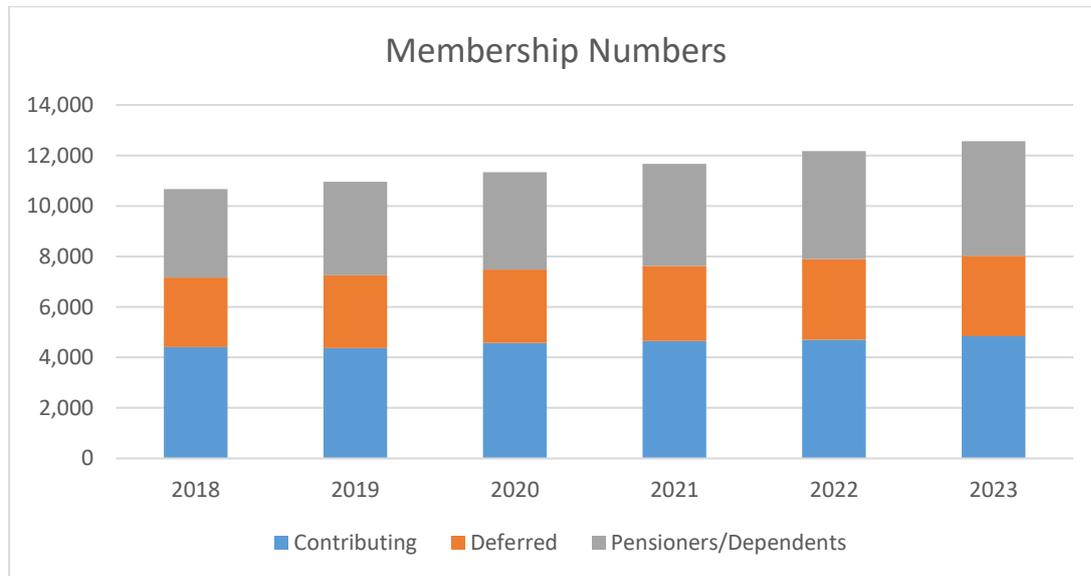
Task	Total Active	Target	% Completed in target
Active Members	4,842	100%	28.14%
Deferred Members	3,187	100%	
Benefit calculations run	16,715		

**MEMBERSHIP**

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

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

The current membership of the Fund is 12,561, of which 4,842 are actively contributing and 4,532 are in receipt of their benefits. The table over provides a summary of the trends in membership:



## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

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

Membership Details as at 31 March 2023	Number of Contributors	Pensioners	Deferred Members	Total
<b>Scheduled Bodies:</b>				
Scottish Borders Council	4,327	4,158	2,899	11,384
Borders College	192	113	94	399
	<b>4,519</b>	<b>4,271</b>	<b>2,993</b>	<b>11,783</b>
Scottish Borders Housing Association	53	116	73	242
LIVE Borders	103	76	86	265
Jedburgh Leisure Facilities Trust	2	2	-	4
Amey Community Limited (TUPEE Staff only)	2	11	1	14
CGI (TUPEE Staff only)	24	10	8	42
South of Scotland Enterprise	139	1	3	143
	<b>323</b>	<b>216</b>	<b>171</b>	<b>710</b>
Gala Youth Project	-	2	-	2
Scottish Borders Careers	-	3	1	4
L&B Community Justice Authority	-	3	6	9
BC Consultants	-	17	13	30
Others	-	20	3	23
	-	<b>45</b>	<b>23</b>	<b>68</b>
<b>Total</b>	<b>4,842</b>	<b>4,532</b>	<b>3,187</b>	<b>12,561</b>

## COMMUNICATION POLICY AND PERFORMANCE

### COMMUNICATION POLICY

The Fund approved the current Communications Policy on 15 September 2022. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is: -

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

The objective of this policy is to ensure that: -

- Pension regulations and the policies of the Fund are communicated in a clear and informative manner.

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

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

The communication methods utilised are: -

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

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

The Fund has deployed a secure portal for all active and deferred members of the LGPS, which provides direct access for scheme members to view personalised pension data and further enhances the communications with active and deferred scheme members in a modern digital manner. The portal also allows members to carry out the following: -

- View all the details they need about their LGPS Pension in real time.
- Carry out pension quotes on demand without needing to contact The Pensions Team
- Annual Benefit Statements available to view.
- Check and update nominations of beneficiary.
- Upload any documents that the Pensions Team request.
- Use the contact facility to raise any questions in an electronic manner.
- Provide feedback on the MSS application.

Pension Committee and Local Pension Board agendas and minutes can be found on the main Council website, [www.scotborders.gov.uk](http://www.scotborders.gov.uk) The Fund uses both surface and e-mail to send and receive general correspondence. Roadshows and presentations are available to employer workplaces and attendance at roadshows, seminars, induction and pre-retirement presentations on request, a minimum period of four weeks' notice will be required to allow for appropriate preparations. Scheme members can arrange to visit our offices to speak to a member of our Pensions Administration Team, they can arrange to pre-book appointments by e-mail or telephone.

The introduction of the Pension Fund website in June 2018 has allowed members to access information and documents. The table below details the number of visits to the site over the past 15 months up to end of May 2023. The scheme website can be found at [www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**



## COMMUNICATION PERFORMANCE

The following communications took place during 2022/23

- The Employer Liaison meeting was held as a virtual meeting due to the continued hybrid working practices. In addition to the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years' payroll
- Deployment of Member Self Service with emails issued to all active members to encourage sign up and provide access to the Annual Benefit Statement
- Annual Benefit Statements were issued in hard copy format to all deferred members including information on how to sign up for the Member Self Service portal and newsletter.
- Information continues to be posted within the Scottish Borders Council Pension Fund website; this included the following: -
  - Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
  - Information regarding Pensions Increase
  - Details of Shared Cost AVC

# **SECTION 5**

# **FUNDING**

## **FUNDING STRATEGY STATEMENT**

The Funding Strategy Statement sets out its purpose and objectives as

- to ensure the long-term solvency of the Fund, using a prudent long-term view.
- to ensure that employer contribution rates are reasonably stable where appropriate.
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- to reflect the different characteristics of different employers in determining contribution rates; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

The aims and purpose reflect those of the Fund.

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

The latest Funding Strategy Statement (FSS) was approved by the Pension Fund Committee on 4 March 2021 and resubmitted for noting to the Pension Fund Committee and Pension Fund Board on 17 March 2022. It is effective from 31 March 2021 and a copy of this document can be found at [Funding Strategy Statement](#).

## **ACTUARIAL STATEMENT**

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

In completing the Actuarial Valuation, the Actuary must have regard to the current version of the administering authority's Funding Strategy Statement.

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

### **Actuarial Valuation 2020**

The Actuarial Valuation as at the 31 March 2020 was undertaken during 2020 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Fund Board on 4 March 2021. The Actuarial Valuation was undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018. A copy of the report is available via the Council's committee papers website [Pension Fund/Board Committee papers](#)

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

The outcome of the 2020 Actuarial Valuation was a funding level of 110% a slight reduction in the position assessed at 2017 of 114%. The funding position equates to a surplus of over £63m and the advice of the Actuary is that this surplus be used over time to partially offset increases in the primary employer's contribution rate of 21.9%. The Fund's common pool contributions rate remains stable for the first two years but due to uncertainties around the impact of McCloud and the Cost Cap Mechanism rates will be increased by 0.5% from 1 April 2023. Employers out with the common pool have seen individual employer rates change for specific circumstances.

Valuation Date as at 31 March	Past Service Funding Position – Scottish Borders Council Pension Fund		
	2014 £m	2017 £m	2020 £m
Value of the Scheme Liabilities	487	(573)	(650)
Smoothed Asset Value	490	654	713
<b>Surplus/ (Deficit)</b>	<b>3</b>	<b>81</b>	<b>63</b>
<b>Funding Level</b>	<b>101%</b>	<b>114%</b>	<b>110%</b>

Note 19 to the Statement of Accounts contains details of the outcome and assumptions used in the 2020 Valuation and the impact that it had on employer contribution rates.

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

### Employer Contribution Rates

As part of the 2020 Actuarial Valuation, the Actuary certified the primary rate at 21.9%. However, in agreement with the Actuary a secondary rate of 3.9% has been deducted to allow the common rate of contribution as 18% of payroll for the next two years with an increase of 0.5% on 1 April 2023. The secondary rate will reduce the surplus of £63m over 50 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	
	2021/22	2022/23
Scottish Borders Council Common Pool	18.0%	18.0%
Scottish Borders Housing Association – Individual	20.3%	20.8%
CGI	21.1% plus £16,500	22.0% plus £16,500
South of Scotland Enterprise	20.6%	21.1%

**Valuation for Statutory Accounts at 31 March 2023**

Note 20 to the Financial Statement contains the present Actuarial Valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net asset position of £135m and the reason this has changed from a net liability position of £148m as at 17 March 2022 is because of higher interest rates. This can be seen from the fact that the present value of the defined benefit obligations has dropped from £1,057m to £731m.

However, the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2020 Actuarial Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the Fund. The full version of the Actuary report and the current Funding Strategy Statement is available via the Pension Fund website: [Scottish Borders Council Pension Fund](#)

# **SECTION 6**

# **INVESTMENT**

## STATEMENT OF INVESTMENT PRINCIPLES

Following the 2020 Actuarial Valuation which reported a funding position of 110% and investment target returns of 3.8%, the Fund undertook a review of its Statement of Investment Principles and its target asset allocation.

The Statement of Investment Principles ('SIP') and is reviewed regularly to reflect any changes agreed by the Pension Fund Committee and Pension Fund Board. The SIP for 2022/23 was approved on 17 March 2022, can be found at [Statement of Investment Principles](#).

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 as amended, require administering authorities to prepare, maintain and publish a SIP which includes the policy on:

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

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

The primary objective of the Fund which frames key considerations when agreeing the SIP 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.

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

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

## INVESTMENT STRATEGY

The Pension Fund Committee and Pension Fund Board sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and as appropriate, asset liability modelling techniques are used to assist in these reviews.

This investment objective is to support the Funding Strategy by adopting an Investment Strategy and structure, which incorporates an appropriate balance between risk and return to build up the required assets in a way that produces stable employer contributions to the Fund

The Pension Fund Committee 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.

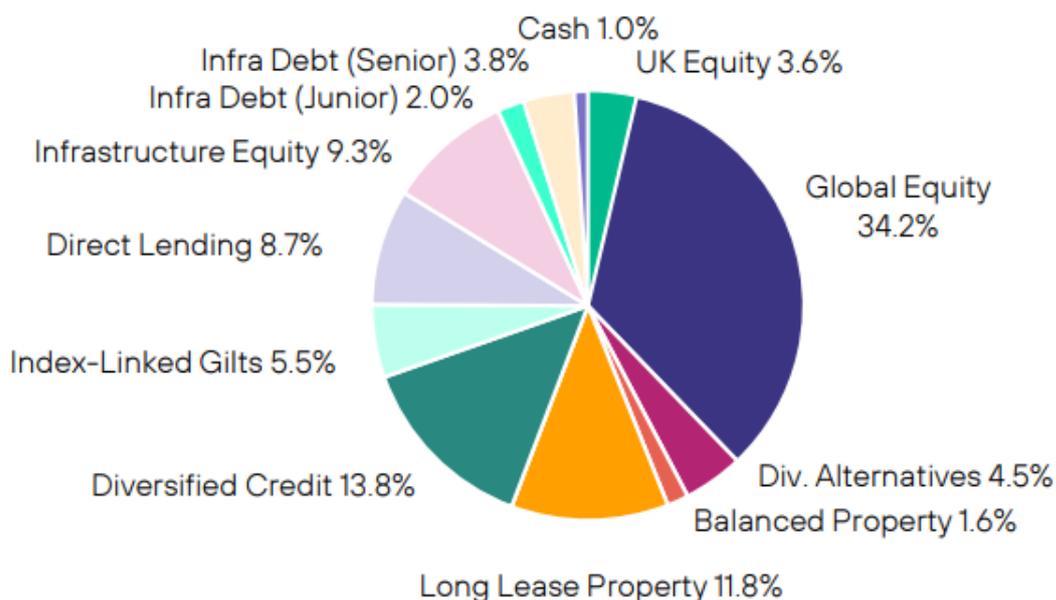
The Fund now has negative cash flow as there are less actively contributing members compared to members receiving pensions. It however also has deferred members who are presently neither contributing to nor receiving benefits from the Fund.

The Fund is categorised as a maturing fund, and this is reflected in the Investment Strategy with a move towards a greater focus on income producing assets. The main focus of the Fund however is to continue to seek capital growth to meet future liabilities.

The Investment Strategy, which forms part of the SIP, has been developed with the support of external investment consultants who support the Pension Fund Committee in their decision-making process. The approved Investment Strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.

Following the 2020 triennial valuation, a full asset allocation review exercise was undertaken in June 2021, taking into account the funding status and liabilities and using asset liability modelling. A further refinement was made to the strategic assets allocation in March 2023, resulting in the revised strategy contained in the SIP.

A full Investment Strategy will be carried out following the results of the Actuarial Valuation as at 31 March 2023. The review is expected to take place in late 2023 or early 2024.



## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

The approved strategic asset allocation maintained the allocation for equities but approved the movement of the passive equities into a ESG focused passive fund and the movement of Baillie Gifford Global equities into their Paris Aligned Global Equity fund. The review also introduced an allocation to Residential Housing, increased the allocation to Long Lease Property and increased the allocation to Infrastructure. These changes were made to increase the alignment of investments with liabilities and to increase the income generating investments to ensure funds are available to pay liabilities as they become due. The Fund has made good progress on the implementation of these changes with the full funding of the new ESG passive equity fund with LGIM and has fully implemented the increased allocation to Long Lease Property with BlackRock. The infrastructure allocation has also been fully funded with IFM.

The strategic asset allocation also diversifies the risk exposure in its use of managers. The Fund currently has 11 firms of investment Managers with 17 funds (this excludes the managers used through the collaboration with the Lothian Pension Fund ('LPF')).

Shown below are the current investment managers for the Fund.



BLACKROCK



Morgan Stanley



PERMIRA  
DEBT MANAGERS



*ifm*  
investors

The Fund's infrastructure investment is split over a pooled fund investment with IFM, and a portfolio of investments developed in collaboration with the Lothian Pension Fund. The investment managers for these are shown below:



Brookfield



DALMORE CAPITAL



KKR



OAKTREE



The implementation of the Investment Strategy commenced in June 2021 saw the appointment of LGIM for ESG Passive Equity and IFM for Infrastructure. The table over shows the position as at 31 March 2023 against the Strategy:

Asset Class	Asset Allocation at 31/3/22 %	Asset Allocation at 31/3/23 %	Strategic Benchmark %
UK Equity	3.2	4.0	3.5
Global Equity	36.0	34.0	36.5
Bonds	20.3	19.0	16.0
Alternatives	12.7	13.0	14.0
Property	16.3	14.0	14.5
Infrastructure	9.5	15.0	15.5
Cash	2.0	1.9	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Investment Manager Allocation

Each external investment manager is appointed to manage a specified % allocation of the Fund's total investment assets. The breakdown of the Fund's assets by investment manager, mandate type and asset class at 31 March 2022 and 31 March 2023 are shown in the table below (this summarises the managers used through the collaboration with the Lothian Pension Fund (LPF)).

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

<b>Manager</b>	<b>Mandate Type</b>	<b>31 Mar 2022 (%)</b>	<b>31 Mar 2023 (%)</b>
Baillie Gifford	UK Equities	3.2	3.6
Baillie Gifford	Global Equities	12.6	12.3
Morgan Stanley	Pooled Fund - Global Equities	13.0	11.0
LGIM	Pooled Fund – Global Passive Equities	10.3	10.7
M&G	Pooled Fund - Diversified Income	12.9	13.7
M&G	Pooled Fund - Bonds	7.3	5.4
UBS	Pooled Fund - Property	2.9	1.6
BlackRock	Pooled Fund – Property	13.3	14
LGT	Pooled Fund - Alternatives	7.4	4.5
Partners Group	Pooled Fund – Private Credit	3.5	5.6
Permira	Pooled Fund – Private Credit	1.7	3.0
LPF	Infrastructure Equity	3.7	5.7
IFM	Infrastructure	0.0	3.5
Macquarie	Pooled Fund -Infrastructure Debt	5.8	5.8
Cash	Internally Managed Cash & Investments	1.9	1

**Scottish Borders Council Pension Fund  
Annual Report and Accounts for the year to 31 March 2023**

**Holdings**

The table below shows the top 20 direct holdings at 31 March 2023. All holdings are held with the Baillie Gifford Global and UK equities' portfolios.

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Microsoft	4.0	AJ Gallagher	2.1
Prosus	3.9	Olympus	1.9
Elevance Health	3.9	Atlas Copco	1.8
Moody's	3.6	Royalty Pharma	1.8
Pernod Ricard	2.7	TSMC	1.8
Service Corp Intl	2.7	Thermo Fisher Scientific	1.7
Mastercard	2.5	Meta Platforms Inc	1.7
Amazon.com	2.5	Tesla Inc	1.7
AIA Group	2.4	Richemont	1.6
Alphabet Class C	2.3	Alnylam Pharmaceuticals	1.5

**INVESTMENT PERFORMANCE**

**MARKET CONTEXT**

The 12-month period to 31 March 2023 was defined by heightened inflation and rising interest rates in key developed market regions (US, UK, Europe). Against this backdrop, markets faced a challenging and volatile period as central bank rhetoric and investor sentiment fluctuated.

Investor focus at the beginning of the accounting period centred on central bank policy, with investors concerned over the impact of rising interest rates and the removal of accommodative monetary policy as central banks attempted to stem heightened inflation. Alongside this sentiment, investors remained cognisant of the ongoing conflict in Ukraine and the impact this continued to have on global markets, with Russia hit by economic sanctions and retaliatory measures on Russian oil exports and gas supply issues in Europe. This combination of supply chain pressures, rising energy prices and transportation costs exacerbated the already pronounced increase in inflation, putting further pressure on central banks to accelerate planned interest rate hikes. The sharp rise in interest rates amid heightened and stubborn inflation significantly weakened global economic growth forecasts and increased fears of a global recession over Q2 2022 and Q3 2022.

At the end of September 2022, the UK Government announced its plans for a substantial unfunded fiscal package. The announcement raised concerns over the UK's credibility to pay back long-term debt, resulting in a sharp fall in Sterling and the biggest sell-off in long dated UK

government bonds since the 1990s. To provide some stability to markets, the Bank of England intervened with a short-term government bond purchasing programme over the first two weeks of October. The reversal of many of the policies announced in the “mini budget”, and a change in political leadership, saw UK gilt yields stabilise over the final quarter of 2022. As a result, domestically focused areas of the UK equity market benefitted from the recovering outlook.

Financial markets ended the year more positively, as investors pared back expectations of the pace and magnitude of near-term rate rises as elevated inflation began to ease slightly. This was despite a partial setback in December as central banks reaffirmed their commitment to the rate hiking cycle. Having sold off significantly in September, UK markets bounced back from their depleted valuations owing to the reversal of many of the policies announced in September’s ‘mini budget’ and the Bank of England’s emergency relief measures in an attempt to stabilise UK bond markets.

Financial markets started 2023 positively, continuing the positive sentiment that global inflation may have peaked and that interest rate hikes may slow or stop earlier than expected. This was despite a partial setback in March 2023 due to corporate liquidity fears caused by the collapse of Silicon Valley Bank and the UBS takeover of Credit Suisse. However, any volatility or concern arising from this was more than offset by the increase in valuations over January and February.

### **Equity markets**

Equity markets were largely negative over the 12-month period. Global equities returned –5.1% (MSCI AC, GBP hedged) in local currency terms over the year, while unhedged equities returned -0.9% (MSCI AC, unhedged). Despite the negative sentiment from events in September and October, the UK performed strongly, benefitting from its heavy bias to energy and financials, posting a gain of 2.9% (FTSE All Share) for the year. US equities detracted over the period, delivering a return of -7.7% (S&P 500, GBP hedged) due to significant exposure to highly valued “growth” style stocks, which are more sensitive to investor sentiment which was largely negative. Similarly, emerging markets detracted primarily due to the negative impact of China’s strict lockdown measures to control COVID-19. Overall, Emerging Market equities ended the year negative, delivering a return of -6.2% (MSCI EM, GBP hedged).

### **Bonds**

Fixed income markets were sharply negative over the year, owing to rising base rates and heightened inflation, both of which erode future fixed income streams. Despite the negative investor risk sentiment, investment grade credit underperformed subordinated debt, due to its greater sensitivity to interest rates. Global investment grade credit ended the year posting a negative return of -4.9% (source: PIMCO). Global high yield credit delivered a negative return of -3.1% (source: PIMCO).

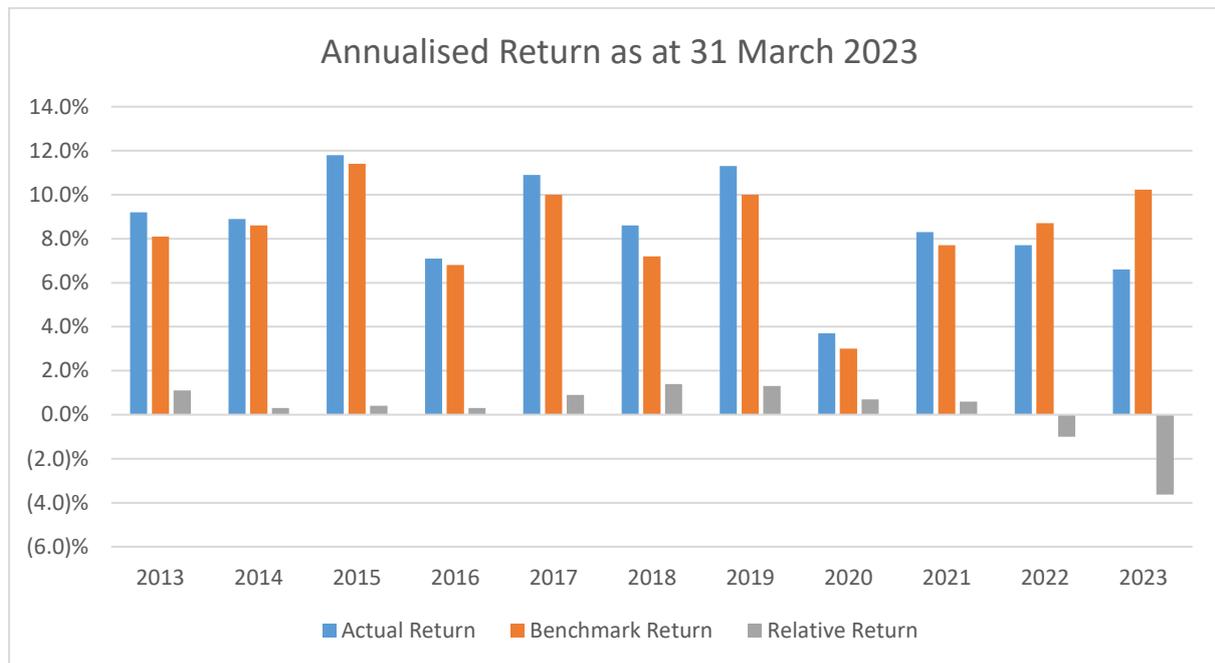
Fixed interest gilts (FTSE Gilts Over 15 years) and index-linked gilts (FTSE Index Linked Gilts Over 5 years) returned -29.7% and -30.4% over the period respectively, driven by the Bank of England’s rate hiking cycle and increasing inflation expectations. Gilt yields, and thus valuations, were significantly volatile over September and October owing to the market reaction to the UK government’s “mini budget”.

### **Property**

The UK property market also underperformed, despite a strong first half of 2022. The property market saw significant negative performance over the second half of the year, with valuation declines driven primarily by rising interest rates and the rising cost of debt.

**FUND PERFORMANCE**

The Fund's investment returns delivered a return of -4.8% (5.9% 2021/22) against a benchmark of 2.3% (10.6% 2021/22) for the year to 31 March 2023. Overall, the Fund's assets decreased by £43.4m from 31 March 2022. The negative absolute and relative performance over the past 12 months was reflective of the volatile and difficult market conditions. Whilst the Fund's assets have declined overall, the change in market conditions will have also resulted in a decline in the present value of the Fund's liabilities, with the expectation being that the net position will be positive for the Fund.



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

The Fund delivered a return of -4.8% against a benchmark of 2.3% for the year.

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

Return on Investment as at 31/03/2023	1 year rolling return		3 year rolling return	
	Fund %	Benchmark %	Fund %	Benchmark %
<b>Total Fund</b>	<b>-4.8</b>	<b>2.3</b>	<b>6.6</b>	<b>10.2</b>
Global Equities	-3.1	-1.0	10.8	16.3
UK Equities	-1.6	3.0	9.0	14.1
Bonds	-9.4	-7.7	1.7	-0.3

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

Alternatives	2.7	8.3	<b>6.8</b>	5.8
Property	-13.0	12.2	<b>0.8</b>	10.1
Cash	-	-	-	-

All of the Fund's mandates contributed to the relative underperformance over the last 12 months, albeit to varying degrees, in what was a challenging market environment.

Underperformance over the 3-year period has been driven by the Fund's equity mandates (both Global and UK) and property mandate. Equity underperformance can be largely attributed to the significant underperformance of the Baillie Gifford mandates, whose growth-style has underperformed in the rising interest rate environment. Rising interest rates, and the associated increase in the cost of debt, has also resulted in a fall in the capital value of underlying property assets within the property mandates. This, combined with the inflation-based benchmark for the Long Lease Property mandate, in a period where inflation has reached multi-decade highs, were the key drivers of the mandate's relative underperformance.



## **RESPONSIBLE INVESTMENT**

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

The Fund approved a revised Statement of Responsible Investment Policy (the 'Policy') on 17 March 2022 setting out the approach to responsible investment and arrangements to monitoring manager performance against the principles of the policy on an annual basis. The key principles within the Policy are:

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

The approved Policy also approved 6 key responsible investment objectives. These are.

- SDG 13 – Climate Change
- SDG 7 – Affordable & Clean Energy
- SDG 1 – No Poverty
- SDG 2 – Zero Hunger
- SDG 3 – Good Health & Well-being
- SDG 10 – Reduce Inequalities

Work has commenced in the assessment and collection of data to allow reporting and monitoring of SDG13 Climate change and SDG 7 Affordable & clean energy. Due to the lack of robust measurement criteria or data the remaining objectives will be reviewed regularly as data collection is developed.

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

The Fund actively investigates opportunities to increase investment in sustainable funds. This active management resulted in a £30m investment with IFMin their Global Infrastructure (UK) fund.



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

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



The Fund as part of its responsible investment policy has become a signatory to Climate Action 100+ which was launched in December 2017 with the support of 225 investors representing \$26.3 trillion of assets. It now has 575 investors with assets of \$54 trillion under management. The Fund became a signatory to this in March 2020.

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

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

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

Due to the work of Climate Action 100 and other there were a record 215 climate-related shareholder resolutions in the recent 2022 proxy season. Work undertaken also saw the first ever net zero accounting related resolution at a FSTE 100 AGM. Climate Action 100 with support of signatories like the Fund continue to work with companies to make improvements and commitments to Climate change targets.

# SECTION 7

## INDEPENDENT AUDITOR'S REPORT

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

### Reporting on the audit of the financial statements

#### Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Scottish Borders Council Pension Fund (the fund) for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2023 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 2 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Conclusions relating to going concern basis of accounting**

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

## **Risks of material misstatement**

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

## **Responsibilities of the Director of Finance & Procurement and the Council for the financial statements**

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

In preparing the financial statements, the Director of Finance & Procurement is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

The Council is responsible for overseeing the financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

## Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2023

reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud.

Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Director of Finance & Procurement as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;
- inquiring of the Director of Finance & Procurement concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

## Reporting on other requirements

### Other information

The Director of Finance & Procurement is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

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

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

### **Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement**

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

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

## **Matters on which I am required to report by exception**

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

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

I have nothing to report in respect of these matters.

## **Conclusions on wider scope responsibilities**

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

## **Use of my report**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

John Boyd CPFA

Audit Scotland  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

## CONTACT DETAILS

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

Pensions Team

Telephone 01835 – 825052/3

E-mail [pensions@scotborders.gov.uk](mailto:pensions@scotborders.gov.uk)

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

or visit Scottish Borders Council Pension Fund website at:  
[www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)

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

Suzanne Douglas

Telephone 01835 – 824000 ext. 5881

Director of Finance & Procurement

E-mail [Sdouglas@scotborders.gov.uk](mailto:Sdouglas@scotborders.gov.uk)

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

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