

Scottish Borders Council Pension Fund **annual report and accounts**

for the year to 31 March 2024



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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 2024. 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 2023/24.

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. The Fund continued with a second successful application as a signatory of the UK Stewardship Code.

The Joint meetings of the Committee and Board are hybrid in nature, facilitating face-to-face interaction and flexibility of virtual meeting options in 2023/24 ensuring all necessary governance and decision making continued.

The Investment and Performance Sub-Committee, met in person 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 market environment has changed significantly since the Fund’s last valuation. The first 12 months post-valuation were defined by the Covid-19 pandemic, and the unprecedented stimulus measures (both fiscal and monetary) taken by central banks and governments globally to try to alleviate the pandemic’s economic impact. Since then, markets have been defined by tightening monetary policy and soaring short-term inflation, driven by the fiscal stimulus measures and low interest rates from 2020, coupled with global supply-chain issues, rising energy prices and global geopolitical tensions. Against this backdrop, the Fund has seen a material improvement in its funding position since the last valuation, increasing from 110% as at 31 March 2020 to 134% as at 31 March 2023. The positive result from the triennial revaluation enabled the Scottish Borders Council employer pension contribution rate to move to 17% from 2024/25 through to 2027/28.

Investments

Over the 12-month period the Fund posted a positive return of 9.1% and net investments increased by £70.83m. Despite elevated inflation over the period putting upward pressure on the value of the Fund’s liabilities (as they are largely inflation linked), the present value of the Fund’s liabilities has remained broadly unchanged due to the sharp rise in interest rates, as central banks try to tackle inflation and bring it back in line with their central targets (the 20-year nominal gilt yield increased c.3% between 31 March 2020 and 31 March 2023).

Statement of Responsible Investment

The Council and Officers have undertaken significant work to integrate Environmental, Social and Governance (‘ESG’) into many of the Fund’s allocations. The Fund continues to monitor and work with all its managers to ensure ESG is fully integrated into all their investment decisions. The Committee acknowledges that climate change poses a financial risk to the Fund in the long-term, but it can also present new opportunities. Climate change is anticipated to have significant impacts on our members, financial markets, and society as a whole over the coming years. Therefore, the Committee recognises that it is our fiduciary responsibility to manage these risks and seize the opportunities. To fulfil this duty, we have implemented measures to ensure that climate considerations are thoroughly incorporated and embedded into our processes, procedures, and decision-making.

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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 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.

Progress continued with delivery of actions set out in the Fund's business plan. Updates were made to the Communication and Overpayment Policies and a review of the Pensions Administration Strategy was carried out. The first Annual Newsletter was issued in March 2024 and was a welcome addition to the communications with all categories of fund members.

Review of the Triennial Valuation highlighted timely delivery of required information, and the team received excellent feedback from the Fund Actuary on the quality of the data provided.

Local Authority Pension Fund Awards 2024

The Fund is delighted to report that we have been shortlisted for the Local Authority Pension Fund of the Year (Assets under £2.5 billion) Annual Award 2024. Over the years this award has come to be recognised as a mark of excellence in the field of pensions provision in the LGPS.

Local Government Chronicle Investment Awards 2024

The Fund is delighted to report that we have been shortlisted for the LGC Investment Award 2024 - LGPS Pension Fund of the Year (Assets under £5 billion).

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.



Councillor David Parker
Chairman, Pension Fund Committee

Scottish Borders Council

26 September 2024

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MANAGEMENT COMMENTARY

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 dependents. 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 dependents, 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 12,879 (12,561 in 2022/23)
- Total pension paid £32.7m (£28.3m 2022/23)
- Total contributions received £26.7m (£24.3m 2022/23)
- Total transfers in from other Pension Funds £3.5m (£0.8m 2022/23)
- Total payments to leavers from Pension Fund £1.3m (£1.9m 2022/23)
- Total investments held £936.8 (£866.0m 2022/23)
- Investment performance of 9.1% for 2023/24 (-4.8% 2022/23)

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 several recommendations which concerned matters related to: Governance Structure and Decision Making; Objectives and Planning; Outcomes and Oversight; Risk Management; and Audit. A Governance action plan was developed during 2023/24 following the recommendations and was first presented to the Pension Fund Committee and Board at the December 2023 Pension Fund Committee and Board meeting.

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Actions set out in the Governance Plan for 2023/24 were completed and can be read in more detail in Section 2 of this report. All required actions are on track for completion during 2025. Following completion, best practice items adopted will remain in place with regular review to ensure we continue to maintain high standards of governance of the Pension Fund. Upon completion of the work set out in the Governance Plan we will continue to follow the requirements of the Business Plan which is noted below.

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 2023/24 are noted in Section 2 – Governance.

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 3 members representing the employers and 4 trade union members representing the employees.

RISKS AND UNCERTAINTIES

The Pension Fund is committed to the application of appropriate and effective risk management practices. These support the primary aim of the Pension Fund which is to provide for members, pension and lump sum benefits on their retirement or for their dependents, benefits on death before or after retirement, on a defined benefits basis.

The Pension Fund champions a culture where those supporting the function of the Pension Fund (SBC Senior Officers and external advisers) are encouraged to develop new initiatives, improve performance and achieve objectives safely, effectively and efficiently by appropriate application of good risk management practices.

The Pension Fund purposefully seeks to promote an environment that is risk 'aware'. This means that the Pension Fund can take an effective approach to managing risk in a way that both addresses significant challenges and enables positive outcomes. It will increase success in the achievement of objectives and targets set in the associated SBC Pension Fund Business Plan and Strategies.

The Pension Fund Risk Register has been significantly modified and consolidated during the year 2023/24 resulting in a clearer focus on the most significant risks. The outcome of the refresh was the reduction in the number of risks on the Pension Fund Risk Register from 51 risks to 17 risks through mostly amalgamation, and some removal, of risks within the following Categories: Funding; Investment; Administration; Governance; and National Policy / Regulations. The reduction of the number of risks on the Pension Fund Risk Register to a more manageable number will ensure the more efficient management of its risks.

A new Risk Management Policy and Risk Management Strategy were approved by the Pension Fund Committee in March 2024. Applying this new risk review approach from 2024/25 will involve the review by Officers of the above noted Risk categories on a cycle with reports to quarterly meetings of the Pension Fund Committee. Further information on this and the application of risk management practices can be found in Section 2 - Governance.

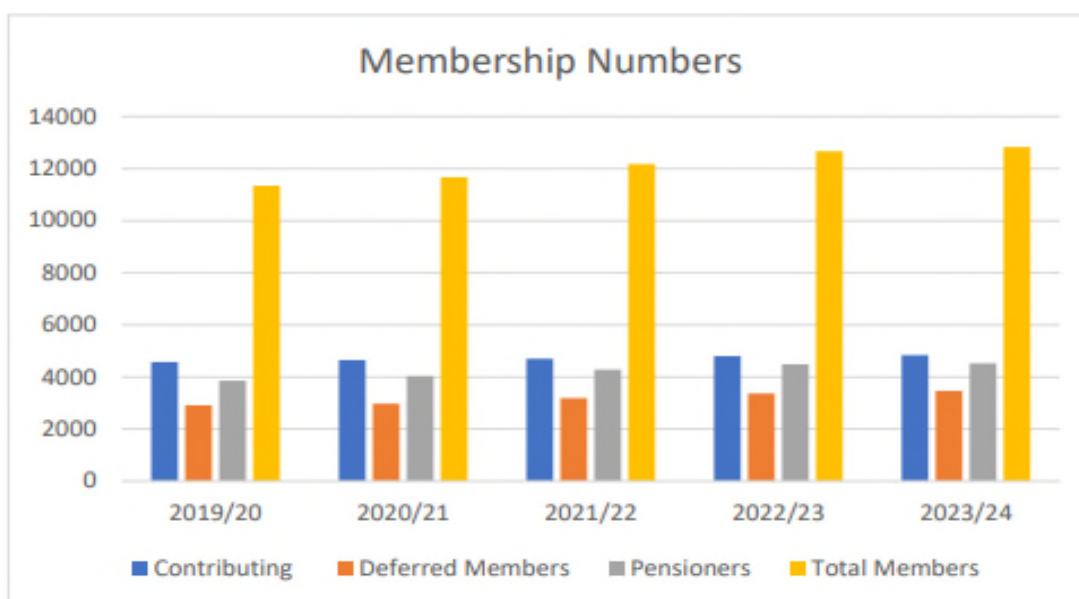
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ADMINISTRATION AND MEMBERSHIP

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, three instances where contributions were received late and no regulatory breaches which required to be reported to the Pensions Regulator.

The Fund has pensions expenditure (including pension fund pension payments and payments to leavers from the pension fund) of £34m during the year (£30.2m in 2022/23) and pensions income received (including contributions and transfers in) of £30.2m (£25.1m in 2022/23). The Fund had a net withdrawal of £3.8m (£5.1m in 2022/23) during the year which was funded from investment income. Pensions have been paid on time and contributions have been collected in accordance with scheme regulations in all instances. The ability for hybrid working has resulted in the administration function to continue to perform and deliver. 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 2024 increased during the year to 12,879 but active contribution members now only represent 38% of the membership compared to 40% at 31 March 2020. 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.



COMMUNICATION

The Fund's Communication Policy seeks to ensure communication in an efficient manner to all stakeholders. Communication is undertaken in several 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 2023 was completed in March 2024 which resulted in a funding position of 134% (110% at 31 March 2020) for the Fund. The next formal valuation of the Fund will be 31 March 2026. Monitoring of the funding position is undertaken on a quarterly basis and reported to the Pension Fund Committee.

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The approved Funding Strategy Statement 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. [Funding Strategy Statement - 2023](#)

INVESTMENT RETURNS

The Fund's investment objective is to provide for members' pension and lump sum benefits on their retirement or for their dependents' benefits on death before or after retirement, on a defined benefit basis; to set levels of employer contributions that will build up assets that will be sufficient to meet all future benefit payments from the Fund and to build up the required assets in a way that produces employer contributions, which are as stable as possible. Following the 2023 Actuarial Valuation, the Fund has seen a material improvement in its funding position since the last valuation, increasing from 110% as at 31 March 2020 to 134% as at 31 March 2023. The changing market landscape has also driven a shift in the relative attractiveness of different asset classes. The Fund's investment strategy was set at a time when market conditions were significantly different to what they are now. The Committee will review and agree a revised investment strategy and asset allocation for 2024 and onwards.

The Fund's investments delivered a return of 9.1% (-4.8% 2022/23) against a benchmark of 12.3% (2.3% 2022/23) for the year to 31 March 2024. Overall, the Fund's assets increased by £72m from 31 March 2023. The positive absolute performance over the past 12 months was driven by the Fund's global equity mandate, which have benefitted from increased investor optimism around a "no landing" scenario (where an economy continues to grow despite contractionary monetary policies) and the performance of the "Magnificent 7" technology stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla) which dominate the market. The Fund's relative underperformance was driven by the Property and Infrastructure mandates as they continue to be impacted by the uncertainty over the future path of interest rates. Our investment consultants reported the Fund's funding position improved, as the value of the Fund's assets increased, whilst the value placed on the Fund's liabilities decreased due the rise in gilt yields.

Global markets delivered largely positive returns over the 12-month period to 31 March 2024 and global economic resilience continued despite lingering inflation, periods of volatility and the outbreak of war in the middle east. Global equities performed strongly, driven by constant, strong earnings growth in the U.S and improving business conditions outside of the U.S., Eurozone inflation cooled, while Japanese GDP growth was revised higher and the Bank of Japan formally ended negative interest rate policy, reflecting strong economic momentum there. Credit market performance was mixed as nominal and index-linked gilt returns were negative over the period, whereas Global high yield and U.K Investment Grade Credit delivered positive returns. Credit spreads continued to narrow, as higher all-in yields attracted investor inflows, and economic data improved.

Investment strategy is under review for 2024. The strategy has exposure to a broad range of asset classes; ways to reduce the number of mandates for the Fund to streamline the governance burden on the Officers/Committee will be considered. The Council and Officers have undertaken significant work to integrate ESG into many of the Fund's allocations. An agreement in principle has also been made to implement an "impact" allocation. "Impact" investing aims to combine the delivery of strong financial returns for our members whilst making a positive impact on the world around us. Consideration will be given to how the "impact" allocation should be structured and built out, and how ESG could be further integrated within the Fund's existing mandates.

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Since 31st March 2024 investments have been made in the following mandates: £12m into M&G UK Index Linked Fund in April 2024; £3.5m into Permira Credit Solutions in April 2024 and £22m into CBRE UK Affordable Housing in May 2024.

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 Governance issues can positively affect the financial performance of investments. The Fund has also undertaken a full review of its Responsible Investment Policy Targets and Metrics on 12 December 2023 and continues to focus on the 6 key responsible investment objectives:

- 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 2023/24. Work has commenced in the assessment and collection of data to allow reporting and monitoring of SDG 13 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 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.

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. Two clear examples of this were the recent allocations to a Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK

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 preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C above preindustrial 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.

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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
Chairman
Pension Fund Committee
26 September 2024



David Robertson
Chief Executive
Scottish Borders Council
26 September 2024



Suzanne Douglas CPFA
Director of Finance
Scottish Borders Council
26 September 2024

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KEY TRENDS

Membership	2019/20	2020/21	2021/22	2022/23	2023/24
Active Members	4,573	4,647	4,703	4,842	4,836
Deferred Members	2,909	2,977	3,194	3,187	3,195
Pensioners	3,856	4,040	4,281	4,532	4,848
Total Members	11,338	11,664	12,178	12,561	12,879

Investments	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Opening Net Value	731,048	712,319	859,794	909,381	866,011
Movement in year	(18,728)	147,475	49,587	(43,370)	70,831
Closing Net Value	712,319	859,794	909,381	866,011	936,842
Investment Income	13,938	12,749	17,600	16,284	22,505
Investment Fees	5,296	5,310	5,668	5,209	6,627

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Administrative Costs	(363)	(352)	(378)	(450)	(452)
Oversight & Governance costs	(263)	(318)	(349)	(338)	(498)
Pensioners Income	21,200	21,727	25,939	25,060	30,212
Pensions Expenditure	(26,555)	(28,296)	(26,071)	(30,163)	(33,986)
Net Pensions Cashflow	(5,355)	(6,569)	(132)	(5,103)	(3,774)

SECTION 2 - GOVERNANCE

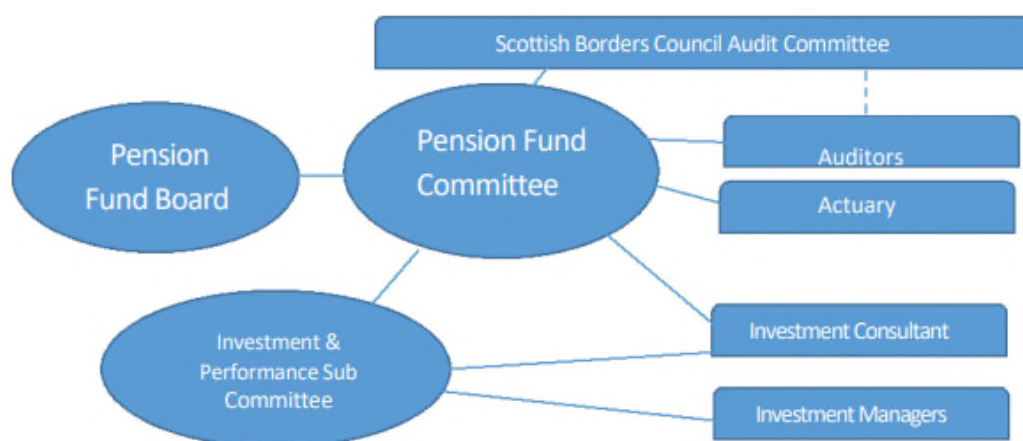
SCHEME ADMINISTRATION

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.

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 six Scottish Borders Council Councillors: four 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. However, we have a current vacancy for LIVE Borders

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.

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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.

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. As at 31 March 2024, the Pension Fund Committee is comprised of six Councillors of Scottish Borders Council. The membership is shown below:



Councillor David Parker - Chair



Councillor Simon Mountford – Vice Chair



Councillor Carol Hamilton



Councillor Leigh Douglas
From 26/09/2023



Councillor Sandy Scott



Councillor Donald Moffat

Councillor Watson McAteer to 30/05/2023

Councillor Pam Brown to 23/11/2023

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PENSION 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.

The Pension Board comprises four employee and three employer representatives appointed by scheme employers and relevant trade unions.

As of 31 March 2024, the Pension Board membership comprised the following:

Employer Representatives:

- Councillor Julie Pirone-Scottish Borders Council from 5/5/2022
- Kirsty Robb – Borders College from September 2022
- Vacancy - Live Borders
- Anthony Daye – South of Scotland Enterprise to December 2023
- Nicola McArthur – South of Scotland Enterprise from December 2023

Employee Representatives:

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

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

INVESTMENT 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 Board. The Sub-Committee meets three times a year.

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RISK MANAGEMENT

Effective Risk Management is one of the foundations of effective governance of the Pension Fund. It requires a coherent approach to the management of risks that it faces every day through the identification, analysis, evaluation, control, and monitoring of risks linked to the business plans and activities of the Pension Fund.

The Pension Fund Risk Register has been significantly modified and consolidated during the year 2023/24 resulting in a clearer focus on the most significant risks. The outcome of the refresh was the reduction in the number of risks on the Pension Fund Risk Register from 51 risks to 17 risks through mostly amalgamation, and some removal, of risks within the following Categories: Funding; Investment; Administration; Governance; and National Policy / Regulations. The reduction of the number of risks on the Pension Fund Risk Register to a more manageable number will ensure the more efficient management of its risks.

The following table summarises the refreshed Pension Fund Risk Register as presented to the joint meeting of the Pension Fund Committee and Pension Board on 4 March 2024. Further details [Item No. 9 - Appendix 1 - Pension Fund Risk Register - PFCB 4 March 2024.pdf \(modern.gov.co.uk\)](#)

Category	Risk Title	Risk Score & Rating
Funding	Strategy alignment	6 Moderate - Unlikely
	Scheme Employer contributions	6 Moderate - Unlikely
	Strategic Assessment Information	6 Moderate - Unlikely
Investment	Investment performance	8 Major - Unlikely
	Market / Economic Conditions	8 Major - Unlikely
	Liquidity for cash flows	3 Moderate - Remote
Administration	Over-Reliance on Key Officers	9 Moderate - Possible
	Failure to process Payments on time	6 Moderate - Unlikely
	Failure to Collect & Account for Contributions	4 Minor - Unlikely
	Failure to Manage Data and Information	9 Moderate - Possible
	Cyber Security	10 Critical - Unlikely
Governance	Scheme Employer Relationships	6 Moderate - Unlikely
	Committee Member knowledge & expertise	8 Major - Unlikely
	Failure of Governance arrangements	8 Major - Unlikely
National Policy / Regulations	Legislative / regulatory compliance	8 Major - Unlikely
	Changes in legislation / regulations	12 Major - Possible
	ESG responsibilities	8 Major - Unlikely
Total	17	
Red (score 15-25) Amber (Score 6-12) Green (Score 1-5)		

A new Risk Management Policy and Risk Management Strategy were approved by the Pension Fund Committee in March 2024.

The Risk Management Policy Statement defines risk and risk management, outlines the vision, and states the roles and responsibilities in managing the risks of the SBC Pension Fund. The Senior Officers (SBC) supporting the Pension Fund have the primary responsibility to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund. The Committee and Board, while the statutory roles and functions are separate, need to be assured that risks to the achievement the SBC Pension Fund's primary aim and underpinning objectives are being adequately managed, and be content that risk-based information is sufficient

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to support sound decision-making.

The 3-year Risk Management Strategy 2024-2026 outlines the approach that will be adopted to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund, in support of the Risk Management Policy Statement. Applying this new risk review approach from 2024/25 will involve the review by Officers of the above noted Risk categories on a cycle with reports to quarterly meetings of the Pension Fund Committee. It will enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process.

The Risk Management Strategy is based upon the professional standards in the Management of Risk (MoR) Guide and CIPFA guidance "Managing Risk in the Local Government Pension Scheme". The strategy is underpinned by:

- A clear and widely understood structure to secure implementation
- A commitment to achievement
- Appropriate training arrangements
- Regular monitoring and reporting arrangements

The new Risk Management Policy and Strategy will ensure there is a relevant risk management framework in place for the SBC Pension Fund aligned to its objectives, governance and administration.

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 Board is provided to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

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 Board. It requires all members to complete the Pensions Regulator's Toolkit within six months of joining the Pension Board and to attend at least two training events a year. The Training Policy also requires an annual training plan to be agreed, though the latter was not formally approved for 2023/24.

On 17 May 2023 an in-person Training Day was organised for members of the Pension Fund Committee, Pension Board and officers of the Council involved in the management of the Fund. The following areas were covered:

- 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.

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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 six Members of the Pension Fund Committee and all seven members of the Pension Fund Board have met the attendance requirement for 2023/24.

No of events	Committee Members No of Members	Board Members No of Members
8	2	1
7	0	0
6	3	1
5	0	0
4	1	2
3	0	1
2	0	2
Less than 2	0	0
Total Members	6	7

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 21 June 2024) which is available on the Council's website: [Governance Policy and Compliance Statement 2024](#)

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 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 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 2023/24 – 2025/26,

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

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, which sets out required development and improvement actions, 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. Progress on actions is subject to monitoring by the Pension Fund Committee and Pension Board.

- 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 Councilors 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. Sound investment practices are in place which follow approved investment principles, an appropriate investment strategy, and effective governance over investment decisions. These systems and procedures are consistent with Scottish Borders Council's counter fraud policy and strategy, which are based on the national counter fraud standard CIPFA's Code of Practice on 'Managing the Risk of Fraud and Corruption'.
- g) The Fund follows a systematic approach to the management of risks. The Pension Fund Risk Register has been significantly modified and consolidated during 2023/24 resulting in a clearer focus on the most significant risks. A summary of which is set out within the Risk Management section.
- h) The Director of Finance 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's (Chief Audit Executive for the Fund) opinion is that there are generally sound systems of governance, risk management and internal control operating within the Scottish Borders Council Pension Fund during 2023/24, 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 Pension Fund Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance. The latter change has recently been reflected in its remit in the Scheme of Administration.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

Review of Framework

The annual review of the effectiveness of the Fund's governance framework 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 2023-24,
- the work of professional accountancy staff within the Council,
- the assurances arising from the work of Internal Audit, the details of which are set out in the Chief Officer Audit & Risk's Internal Audit Annual Assurance Report 2023/24, that is presented to the Pension Fund Committee, and
- the external auditors' reports.

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 2023/24 business plan are as follows:

- Completed second successful application for membership of the UK Stewardship Code during 2023/24.
- Communication Strategy and Action Plan reviewed and approved September 2023 in line with best practice and technological advancements.
- First annual newsletter distributed March 2024.
- Continued to proactively manage and engage the Fund's Employers with the Annual Employer Liaison Meeting held in March 2024.
- Completion and approval of 2023 Triennial Valuation including establishment of funding strategy and funding levels with participating employers.
- 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, Pensions Administration Strategy and Pension Fund Committee Training Policy. Including amendments to Training Policy to fairly 'weight' training according to time and content.
- Reviewed and updated Responsible Investment Policy and annual reporting.
- Implementation of the decisions taken as part of the 2023/24 Investment Strategy Review including 2 new investments made in Nuveen and Quinbrook.

Although progress has been made since last year, the Guaranteed Minimum Pension reconciliation has been further delayed. This is due to the prioritisation of the Triennial Valuation 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. This pay award was backdated to April 2023. There have been further legislative changes announced in relation to the remedy for McCloud; the Fund is currently evaluating the data held within the Pensions Administration system to determine what additional information, if any, is required from the Fund Employers. These items will continue to be monitored in 2024/25.

The Fund has agreed the following key areas of development and improvement within its 2024/25 Business Plan:

- Review the Fund's strategic assets allocation following the results of the 2023 Actuarial Valuation.
- The Pensions Regulator's (TPR) general code of practice came into force on 28 March 2024.

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The code contains new governance requirements and sets out TPR's expectations of how occupational pension schemes should be managed and the policies, practices and procedures that should be in place. A gap analysis is underway to assess what actions need to be taken to ensure compliance.

- Continue to monitor effective Communication Strategy for the Fund.
- Review of Employer covenants.
- Ensure accuracy of pension records.
- Continued promotion of self-service facility.
- Continued 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.
- Ongoing investment strategy review with key objective to delivering an investment return that improves the funding level over time whilst ensuring our investments meet ESG requirements.

Scottish Borders Council Pension Fund Business Plan 2024/25-2026/27 was approved at the Joint Pension Fund Committee and Pension Board meeting 2 September 2024.

A Governance action plan was developed during 2023/24 following the recommendations from the Independent Advisor Report, 'Review of Governance of the Scottish Borders Council Pension Fund' and was first presented to the Pension Fund Committee and Board at the December 2023 Pension Fund Committee and Board meeting.

During 2023/24 the following actions were taken to meet the required recommendations set out within the Governance plan:

- Documentation of compliance with TPR code and risk of non-compliance incorporated into the Risk Register.
- Risk Register updated to provide more focus on priority risks and areas within the Fund's control.
- Fund's Internal Audit remit expanded to cover specific ESG risks.
- Improved monitoring & reporting to align with Responsible Investment Policy objectives.
- Reviewed Section Scheme of Administration to revise/update remit of Pension Fund Committee and I&P Sub-Committee.
- Committee reviewed tri-annual GAD report on funding positions of Scottish LGPS Funds
- Completed recruitment for Pensions, Investments and Accounting Manager
- Measured efficacy of Fund's Communications Strategy (and engagement activity) including introduction of annual Newsletter.

Actions to be completed in 2024/25 are noted below:

- Documentation of continued compliance with TPR code and any risk of non-compliance to be effectively managed in accordance with the Risk Register.
- Action plan to be developed to ensure compliance with new General Code (March 2024).
- Develop Escalation Policy to formalise current Investment and Performance Sub-Committee process for annually monitoring ESG scores.
- Review of Fund Website and content to ensure relevance to readers.
- Continue to measure efficacy of Fund's Communications Strategy (and engagement activity) including issue of 2nd annual Newsletter.

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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
Chairman
Pension Fund Committee

26 September 2024



David Robertson
Chief Executive
Scottish Borders Council

26 September 2024

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

ANNUAL GOVERNANCE COMPLIANCE STATEMENT

The Fund sets out its governance arrangements within the Governance Policy and Compliance Statement (as amended 21 June 2024).

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.

Principle	Full Compliance	Comments
Structure		
A	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the 'Committee').</p> <p>The Committee comprises 6 elected Members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p>
B	Yes	<p>The Pension Fund Board (the 'Board') formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board consists of eight members (four employer representatives and four trade union representatives) covering all pension fund members. We currently have 1 vacancy and Board has seven members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board's Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The Investment and Performance Sub-Committee (the 'Sub-Committee') established under the Committee 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>

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C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	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 Sub-Committee which has a remit to monitor investment performance</p>
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
Committee Membership and Representation			
A	<p>All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <p>(i) employing authorities (including non-scheme employers, e.g., admitted bodies)</p> <p>(ii) scheme members (including deferred and pensioner scheme members),</p> <p>(iii) where appropriate, independent professional observers, and</p> <p>(iv) expert advisors (on an ad-hoc basis)</p>	Yes	<p>The Board and the Committee meet jointly ensuring employer and member (trade union) representation at meetings.</p> <p>The Investment Sub-Committee has two non-voting members from the Board.</p> <p>The Independent Investment Consultant, Finance and HR Officers also attend in an advisory capacity.</p>
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training They are given full opportunity to contribute to the decision-making process, with or without voting rights.	Yes	<p>All members of the Committee and Board are covered equally by the Training Policy (as amended annually).</p> <p>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 papers and access meetings.</p>
Selection and role of lay members			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	<p>For elected Members this is part of the Council's Code of Governance along with the Members' induction programme.</p> <p>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.</p>

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	Part of the Council's Code of Governance requires the declaration of Members' interests for all committees as a standard agenda item.
Voting			
A	The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Yes	Members' expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of training related expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The training policy for all members of the 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.
Meetings (frequency /quorum)			
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.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	As lay members attend the Board and Committee meetings this formally provides for stakeholder engagement
Access			
A	Subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members as detailed in the Scheme of Administration.
Scope			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out the Committee as having a remit which covers all matters relating to the Council's role as Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pensions Regulator.
Publicity			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest if wanting to be part of those arrangements.	Yes	Scottish Borders Council Pension Fund has a standalone website with all governance documents and Fund information. A link is provided to Minutes and public papers available via the Council's website.



**Councillor David Parker
Chairman
Pension Fund Committee**

26 September 2024



**David Robertson
Chief Executive
Scottish Borders Council**

26 September 2024

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

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.
- 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.

I certify that the Annual Accounts have been approved for signature by the Pension Fund Committee and Pension Board at its meeting on 23 September 2024.



Councillor David Parker
Chair, Pension Fund Committee

26 September 2024

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

DIRECTOR OF FINANCE RESPONSIBILITIES

The Director of Finance 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 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 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 at 31 March 2024 and the transactions of the Fund for the year then ended.

Suzanne Douglas

Suzanne Douglas CPFA
Director of Finance, Scottish Borders Council

26 September 2024

**Scottish Borders Council Pension Fund
Annual Report and Accounts for the year to 31 March 2024**

SECTION 3 - FINANCIAL STATEMENTS

FUND ACCOUNT for year ending 31 March 2024

2022/23		2023/24	Notes
£'000		£'000	
	Dealings with members, employers and others directly involved in the scheme:		
24,318	Contributions	26,732	7
742	Transfers in from other pension funds	3,480	8
(28,281)	Benefits	(32,654)	9
(1,882)	Payments to and on account of leavers	(1,332)	10
(5,103)	Net Additions/(Withdrawals) from Dealings with Members	(3,774)	
(5,997)	Management expenses	(7,577)	11
	Return on Investments:		
16,284	Investment Income	22,505	12
(49,598)	Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments	60,716	17a
(498)	Taxes on Income	147	
(33,812)	Net Return on Investments	83,368	
(44,912)	Net Increase/(Decrease) in the Fund during the Year	72,017	
911,145	Opening Net Assets of the Scheme	866,233	
866,233	Closing Net Assets of the Scheme	938,250	

Note 1-28 form part of the Financial Statements

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

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 2024

2022/23		2023/24	Notes
£'000		£'000	
866,189	Investment Assets	937,098	14
(178)	Investment Liabilities	(256)	14
866,011	Total Net Investment	936,842	
	Current Assets & Liabilities		
2,347	Current Assets	4,364	21
(2,125)	Current Liabilities	(2,956)	22
866,233	Net Assets of the Fund available to fund benefits at the period end	938,250	

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 2024 (excluding liability to pay pensioners).

The unaudited accounts were authorized for issue on 21 June 2024 and the audited financial statements were authorised for issue by Suzanne Douglas on

Suzanne Douglas

Suzanne Douglas CPFA
Director of Finance, Scottish Borders Council

26 September 2024

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

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 2023/24 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 18.5% for the Fund as a whole; however, employers' contribution rates during 2023/24 ranged from 18.5% 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 2024. From 1 April 2015 these contributions are based on the LGPS Regulations 2018 in line with the updated LGPS Scheme.

C) Benefits

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

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

The table below gives a summary of the scheme benefits:

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

Further details can be found on the Fund's website. [Scottish Borders Council \(scottishborderscouncilpensionfund.org\)](http://scottishborderscouncilpensionfund.org)

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 2023/24 financial year and its position as at the 31 March 2024. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2023/24* (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.

Scottish Borders Council Pension Fund Annual Report and Accounts for the year to 31 March 2024

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.

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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 2024/25 Code:

- (a) IFRS 16 Leases (but only for those local authorities that have not decided to voluntarily implement IFRS 16 in the 2023/24 year).
- (b) Classification of Liabilities as Current or Non-Current (Amendments to IAS 1).
- (c) Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions.

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(d) Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants.

(e) International Tax Reform: Pillar Two Model Rules (Amendments to IAS 2). Pillar Two applies to multinational groups with a minimum level of turnover.

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

4 CRITICAL JUDGEMENTS

There were no critical judgements used in applying accounting policies.

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 2024 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits (Note 20).	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> - A 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £13m. - A 0.1% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £12m. - A 0.1% increase in the long-term rate of salary increase would increase value of the liabilities by £1m, and - A 1-year increase in assumed life expectancy would increase the liability by £32m <p><i>Source – IAS26 report 2024</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. There is, however a degree of estimation involved in the valuations.	The total assets held in Level 3 £357.9m 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 £399.3 and £316.4m

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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.

Following year end 31st March 2024, an investment asset included within one fund manager mandate had the value written down to £0. The Pension Fund's investment consultants, ISIO, confirmed the value of this asset was £2.46 million at 31 March 2024. There were conditions known at year end which identified there were specific issues with this investment. Under IAS (International Accounting Standard) 10 this would be classed as an adjusting event as it provides evidence of conditions that existed at the end of the reporting period. This would decrease investment assets by £2.46 million in the Net Asset Statement. The Pension Fund has considered the value compared to the fund overall and determined no adjustment was required to the year-end accounts as we are satisfied this is not material to the understanding of investment assets in the accounts.

7 CONTRIBUTIONS RECEIVABLE

2022/23				2023/24		
Employers	Members			Employers	Members	Total
£'000	£'000	£'000		£'000	£'000	£'000
18,184	5,988	24,172	Normal	20,301	6,409	26,710
138	0	138	Special/Pension Fund Strain	13	0	13
0	8	8	Additional Voluntary	0	9	9
18,322	5,996	24,318	Total	20,314	6,418	26,732

2022/23		2023/24
£'000		£'000
20,203	Administering Authority	22,443
1,019	Scheduled Bodies	958
3,096	Admitted Bodies	3,331
24,318	Total	26,732

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8 TRANSFERS IN

2022/23		2023/24
£'000		£'000
0	Group Transfers into the scheme	0
742	Individual Transfers into the scheme	3,480
742	Total	3,480

9 BENEFITS PAYABLE

2022/23		2023/24
£'000		£'000
21,878	Pension Payments	24,851
5,382	Commutation and lump sum retirement benefits	7,239
1,021	Lump Sums death benefits	564
28,281	Total	32,654

2022/23		2023/24
£'000		£'000
25,317	Administering Authority	28,722
658	Scheduled Bodies	1,015
2,306	Admitted Bodies	2,917
28,281	Total	32,654

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10 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2022/23		2023/24
£'000		£'000
147	Refunds to members leaving service	75
1,735	Individual Transfers	0
0	Group Transfers	1,257
1,882	Total	1,332

11 MANAGEMENT EXPENSES

2022/23		2023/24
£'000		£'000
450	Administrative costs	452
5,209	Investment management expenses	6,627
338	Oversight and governance costs	498
5,997	Total	7,577

11(a) Investment Management Expenses

	Total	Management fees	Transaction costs
2023/24	£'000	£'000	£'000
Equities	715	481	234
Pooled Investments	2,638	2,378	260
Private Equity/Infrastructure	2,056	2,054	2
Property	1,167	1,167	0
Total	6,576	6,080	496
Custody fees	51		
Total	6,627		

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2022/23	Total £'000	Management fees £'000	Transaction costs £'000
Equities	535	508	27
Pooled Investments	2,986	2,289	697
Private Equity/Infrastructure	845	653	192
Property	770	465	305
Total	5,136	3,915	1,221
Custody fees	73		
Total	5,209		

12 INVESTMENT INCOME

2022/23		2023/24
£'000		£'000
1,758	Dividends from equities	1,878
7,831	Income from Pooled Investment vehicles	12,121
6,279	Incomes from Pooled Property Investment vehicles	6,948
416	Interest on Cash Deposits	1,558
16,284	Total	22,505

13 OTHER FUND ACCOUNT DISCLOSURES

13(a) External Audit Costs

In 2023/24 the agreed audit fee for the year was £26,370 (2022/23 £24,880). The external auditor is Audit Scotland.

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14 INVESTMENTS

Market Value at 31 March 2023		Market Value at 31 March 2024
£'000		£'000
	Investment Assets	
134,074	Equities	152,237
226,561*	Pooled Equities	265,741
165,909	Pooled Bonds	130,849
75,294*	Pooled Other	77,439
114,749	Pooled Property Investments	104,604
130,036	Private Equity/Infrastructure	146,193
18,694	Cash Deposits	58,835
817	Investment Income Due	626
55	Amounts receivable for sales	574
866,189	Total Investment Assets	937,098
(178)	Amounts payable for purchases	(256)
866,011	Net Investment Assets	936,842

**2022/2023 MV of investments restated to reflect correct allocation of LGT investments; removed from Pooled Other and included within Pooled Equities*

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14(a) Reconciliation of Movement in Investment and Derivatives

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

	Opening Market Value 1 April 2023 £'000	Purchases & Derivative Payments £'000	Sales & Derivative Receipts £'000	Change to Market value during year £'000	Closing Market Value 31 March 2024 £'000
Equities	134,074	27,782	(27,010)	17,391	152,237
Pooled Investments	467,764	39,885	(80,596)	46,976	474,029
Pooled Property Investments	114,749	20	21	(10,186)	104,604
Private Equity/Infrastructure	130,036	19,731	(5,261)	1,687	146,193
Other Investment Balances					
Cash Deposits	18,694			(103)	58,835
Amount receivable for sales	55			0	574
Investment Income due	817			(65)	626
Amount Payable on Purchases	(178)			0	(256)
Net Investments	866,011			55,700	936,842

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

Significant Transactions during the year:

During the year, we made a partial redemption from LGIM Equities to fund a new Renewable Infrastructure investment with Quinbrook and Timberland investment with Nuveen. Following this, a partial redemption of the M&G Alpha Opportunities Fund was made to reinvest in LGIM and rebalance the Fund's strategy towards the target benchmark. The Fund's private credit mandates with Permira and Partners Group also continued to draw and invest capital over the year.

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14(b) Investment Analysed by Fund Managers

Investment management was undertaken on behalf of the Fund during the financial year by 13 firms of investment managers (this excludes the managers used through the collaboration with the Lothian Pension Fund ('LPF')) and these are shown below. During 2023/24, the Fund continued to make investments into Infrastructure, via collaborative working with the Lothian Pension Fund and directly with Macquarie and IFM. During 2023/24, the Fund made 2 new Infrastructure investments in Quinbrook and Nuveen. As at 31 March 2024 the market value of the assets under management, broken down by manager and mandate (including cash held) was:

2022/23 £'000	%			2023/24 £'000	%
31,138	3.6	Baillie Gifford	UK Equities	33,628	3.6
106,205	12.3	Baillie Gifford	Global Equities	118,609	12.7
95,028	11.0	Morgan Stanley	Global Equities	112,728	12.0
92,733	10.7	LGIM	Passive Global Equities	111,050	11.9
118,834	13.7	M&G Alpha Opportunities	Pooled Fund-Diversified Income	87,115	9.3
47,075	5.4	M&G Index Linked	Pooled Fund-Bonds	43,734	4.7
13,664	1.6	UBS	Pooled Fund-Property	12,339	1.3
101,188	11.7	Blackrock	Pooled Fund-Property	92,265	9.8
38,833	4.5	LGT	Pooled Fund-Alternatives	41,963	4.5
48,306	5.6	Partners Group	Pooled Fund-Private Credit	49,309	5.3
26,096	3.0	Permira	Pooled Fund-Private Credit	28,130	3.0
49,628	5.7	Lothian Pension Fund	Infrastructure Equity	49,764	5.3
49,873	5.8	Macquarie	Pooled Fund-Infrastructure Debt	45,478	4.8
30,535	3.5	IFM -	Pooled Fund-Infrastructure Debt	32,200	3.4
0	0	Nuveen Global Timberland	Infrastructure	9,727	1.0
0	0	Quinbrook	Infrastructure	9,024	1.0
16,875	1.9	Internally Managed Cash & Investments		59,779	6.4
866,011				936,842	

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The benchmarks and performance targets for each manager as at the 31 March 2024 are contained in the Statement of Investment Principles published on the Fund's website. [Statement of Investment Principles 2024](#)

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 2024. Each of the investments comprises units in a managed fund.

	As at 31 March 2023		As at 31 March 2024	
	£'000	% of Fund	£'000	% of Fund
Morgan Stanley Global Brands Fund	95,028	11.0	112,728	12.0
LGIM-Future World Global Equity Index	92,733	10.7	111,050	11.9
BlackRock - Long Lease Property Fund	101,188	11.7	92,265	9.8
M&G Alpha Opportunities	118,834	13.7	87,115	9.3
M&G Index Linked	47,075	5.4	43,734	4.7

Fund Performance

The total Fund return for the year was 9.1% with a relative return under benchmark of 12.3%. Over three years the Fund has generated an annualised return of 3.3% per annum, with a relative return under benchmark of 5.1% 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 2024 stock with a market value of £5.5m 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 2024 or 31 March 2023.

16 FAIR VALUE BASIS OF VALUATION

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

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

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16(a) Fair Value Hierarchy

Values at 31 March 2024	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit & loss				
Equities	152,237	0	0	152,237
Pooled Investments	112,728	241,899	119,402	474,029
Pooled Property Investments	0	12,339	92,265	104,604
Private Equity/infrastructure	0	0	146,193	146,193
Net Investment Assets	264,965	254,234	357,860	877,063

Values at 31 March 2023	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit & loss				
Equities	134,074	0	0	134,074
Pooled Investments	95,028*	259,535*	113,201	467,764
Pooled Property Investments	0	13,563	101,186	114,749
Private Equity/infrastructure	0	0	130,036	130,036
Net Investment Assets	229,102	273,098	344,423	846,623

*2022/2023 restated to reflect reclassification of M&G Investments from Level 1 to Level 2 in the fair value hierarchy.

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16(b) Transfers between Levels 1 and 2

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

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

	Market Value 31 March 23	Transfer into level 3	Purchases during year & derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market Value 31 March 2024
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Overseas Venture Capital	21,583	0	10,519	(828)	1,569	49	32,892
Overseas Equity Funds	38,800	0	0	0	3,164	0	41,964
Private Equity Funds	74,402	0	14,404	(14,694)	4,013	(686)	77,439
UK Property	101,186	0	20	21	(8,962)	0	92,265
UK Venture Capital	108,452	0	9,212	(4,432)	63	5	113,300
Total	344,423	0	34,155	(19,933)	(153)	(632)	357,860

	Market Value 31 March 22	Transfer into level 3	Purchases during year & derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market Value 31 March 2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'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 Equity 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
Total	323,720	0	76,746	(40,793)	(23,710)	8,460	344,423

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

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

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

Sensitivity of Assets Valued at Level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined the valuation methods described above are likely to be accurate within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2024.

	Assessed valuation range (+/-)	Value 31 March 2024	Value on increase	Value on decrease
	%	£'000	£'000	£'000
Overseas Equity Funds	18.0	41,964	49,518	34,410
UK Property Funds	8.0	92,265	99,646	84,884
Private Equity Funds	10.5	77,439	85,570	69,308
Overseas Venture Capital	15.0	32,892	37,826	27,958
UK Venture Capital	11.9	113,300	126,783	99,817
Total		357,860	399,343	316,377

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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 2023				31 March 2024		
Fair value through profit & loss	Financial Assets at amortised cost	Financial Liabilities at amortised cost		Fair value through profit & loss	Financial Assets at amortised cost	Financial Liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
134,074	0	0	Equities	152,237	0	0
467,764	0	0	Pooled Investments	474,029	0	0
114,749	0	0	Pooled Property Investments	104,604	0	0
130,036	0	0	Infrastructure	146,193	0	0
0	18,694	0	Cash	0	58,835	0
0	817	0	Other Investment Balances	0	626	0
0	55	0	Debtors	0	574	0
846,623	19,566			877,063	60,035	
			Financial Liabilities			
0	0	(178)	Creditors	0	0	(256)
846,623	19,566	(178)	Total	877,063	60,035	(256)
	866,011		Grand Total		936,842	

17(a) Net Gains and Losses on Financial Instruments

31 March 2023		31 March 2024
£'000		£'000
	Financial Assets	
(49,625)	Designated at fair value through profit & loss.	60,884
28	Loans & receivables	0
	Financial Liabilities	
0	Fair value through profit & Loss	0
(1)	Loans & receivables	(168)
(49,598)	Total	60,716

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, Credit Risk and Liquidity Risk aspects below are considered within the Investment risk category in the Risk Register. In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

Market Risk

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

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

Other Price Risk

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

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

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

Other Price Risk – Sensitivity Analysis

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

Asset Type	Potential Market Movement %
UK Equities	20.5
Global Equities	20.5
UK Bonds	8.3
Property	8.6
Alternatives	13.0
Cash	1.6

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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 March 24 £'000	+/-% Change *	Value on Increase £'000	Value on Decrease £'000
UK Equities	33,628	20.5%	40,522	26,734
Global Equities	342,387	20.5%	412,576	272,198
UK Bonds	43,734	8.3%	47,364	40,104
Property	104,604	8.6%	113,600	95,608
Alternatives	352,710	13.0%	398,562	306,858
Cash	59,779	1.6%	60,735	58,823
Total Assets	936,842		1,073,359	800,325

**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 2023 and 31 March 2024 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value

Asset Type	As at 31 March 2023 £'000	As at 31 March 2024 £'000
Cash and Cash Equivalents	8,659	63,915

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Interest rate risk sensitivity analysis

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

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

		Effect on Asset Values	
Asset Type	Value as at 31 March 2024 £'000	Favourable Rate Move + 100 BPS £'000	Unfavourable Rate Move – 100 BPS £'000
Cash and Cash Equivalents	63,915	639	(639)

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 2024:

Currency exposure by asset type	As at March 2024 £'000
Overseas Equities	117,988
Overseas Fixed Income Funds	87,115
Overseas Equity Funds	265,741
Overseas Venture Capital	32,892
Total	503,736

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Currency risk – sensitivity analysis

Asset Type	Value as at 31 March 2024	+/- % Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
Overseas Equities	117,988	11.2	131,203	104,773
Overseas Fixed Income	87,115	8.3	94,346	79,884
Overseas Equity Funds	265,741	9.6	291,252	240,230
Overseas venture capital	32,892	9.3	35,951	29,833
Total Assets	503,736		552,752	454,720

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 2024, including current account cash, was £4.1m (31 March 2023: £2.2m). This was held with the following institutions:

	Rating	Balance at 31 March 2023	Balance at 31 March 2024
Bank Current Accounts			
Royal Bank of Scotland	A+	2,160	4,136
Northern Trust	AA	6,499	59,779
Total		8,659	63,915

Liquidity Risk

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2024, 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.

2023 Actuarial Valuation

The 2023 Actuarial Valuation was undertaken for the Fund as at 31 March 2023 (full report available on the Fund's website) [Actuarial Valuation Report 2023](#) The Actuarial Valuation was completed during the financial year 2023/24 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 2023 was 134%, compared to the 31 March 2020 valuation of 110% and this corresponded to a surplus of £217m. The following table summarises the funding position:

Valuation Date as at 31 March	2020 £m	2023 £m
Value of the Scheme Liabilities	(650)	(649)
Smoothed Asset Value	713	866
Surplus/(Deficit)	63	217
Funding Level	110%	134%

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years.

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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 detailed Actuarial Valuation has been 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 2023) are:

Valuation Date as at 31 March	2020 Valuation % p.a	2023 Valuation % p.a
Investment Return	3.8	5.2
Pay Increases -Long Term	2.6	3.0
Pension Increases	1.9	2.3
Discount Rate	3.8	5.2

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 2020	31 March 2023
Pensioners	Male	20.9	20.6
	Female	23.5	23.3
Non-Pensioners	Male	21.9	21.2
	Female	25.4	24.9

Commutation Assumption

It is assumed that future retirees will commute pension to provide a lump sum of 65% 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.

	31 March 2022 £m	31 March 2023 £m	31 March 2024 £m
Present value of the defined benefit obligations	(1,057)	(731)	(793)
Fair Value of Fund Assets * (bid value)	909	866	937
Net Asset/(Liability)	(148)	135	144

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

GMP equalisation / indexation treatment (Lloyds' ruling)

The actuary allowed for the impact of full GMP indexation in the calculation of the latest funding valuation results. The Fund's funding valuation results are used as the starting point for the accounting roll forward calculations and therefore an allowance for full GMP indexation has already been included in the accounting disclosure.

GMP equalisation – historical transfers (Further Lloyd's ruling)

This further ruling is unlikely to have a significant impact on the pension obligations of a typical employer, and the historic individual member data we would need to assess the impact is not readily available. As a result, the actuary has not made any allowance for this within their calculations at the Accounting Date.

McCloud/Sargeant treatment

The actuary allowed for the McCloud judgement in the calculation of the latest funding valuation results. The Fund's funding valuation results are used as the starting point for the accounting roll forward calculations and therefore an allowance is included in the accounting disclosure.

Goodwin treatment

The actuary previously carried out some approximate analysis across their LGPS clients to understand the potential impact of implementing a solution to correct the past underpayment of spouses' benefits. The remedy is still uncertain but the actuary estimates the potential impact of this to be very small for a typical Fund (c0.1% of obligations). They therefore do not believe it is necessary or appropriate to make an adjustment to account for this at the moment, given the level of additional work and fees that would be involved for the Fund (and indeed the highly approximate nature of applying an unknown remedy).

The allowances 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 2022	At 31 March 2023	At 31 March 2024
	% p.a.	% p.a.	% p.a.
Discount Rate	2.70	4.75	4.85
Pay Increases – Long Term	3.90	3.65	3.45
Pension Increase	3.20	2.95	2.75

As noted above, liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2023 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.

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21 CURRENT ASSETS

Current Assets	At 31 March 2023 £'000	At 31 March 2024 £'000
Short term debtors		
Contributions Due-Employees	0	0
Contributions Due-Employers	0	81
	0	81
Transfer value receivable (joiners)	73	0
Sundry Debtors	0	16
Prepayments	114	131
Total	187	228
Cash Balances	2,160	4,136
Total	2,347	4,364

22 CURRENT LIABILITIES

Current Liabilities	At 31 March 2023 £'000	At 31 March 2024 £'000
Transfer value payable (leavers)	272	349
Sundry Creditors	987	2,189
Benefits payable	866	418
Total	2,125	2,956

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 2024 was £2.952m (2023 £2.285m). During the year contributions in total £1.013m, while payments out of the AVC fund totalled £0.53m. 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

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as "unauthorised payments" by HMRC, these pension payments are met by the administering authority through a general fund bank account and recharged to the body or service which granted the benefit.

As "unfunded payments" are discretionary benefits, they're not relevant to the sums disclosed in the Fund accounts. As such, Scottish Borders Council Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

25 RELATED PARTY TRANSACTIONS

During the year, the Fund had an average balance of £1.6m (2023: £0.7m) of cash administered by Scottish Borders Council within separate external banking arrangements. The Council charged the Pension Fund £0.084 (2023 £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 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	2023 £'000	2024 £'000
Due (to)/from Scottish Borders Council	(253)	(216)

Governance

Five members of the Pension Fund Committee were active members of the Pension Fund as at 31 March 2024. 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 2023/24 was Scottish Borders Council Director of Finance. Total remuneration payable is set out below.

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

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31 March 23 £000's		31 March 24 £000's
102	Short-term benefits	99
0	Post-employment benefits	0
10	Other long-term benefits	8
0	Termination benefits	0
112	Total	107

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

Two of the admitted body employers (Amey and CGI) within the Fund hold 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 LIABILITIES

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

ADMINISTRATION STRATEGY

The Pension Administration Strategy approved on 4 March 2024 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.

ADMINISTRATION 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 2024 is set out below.

Employer Performance Measures Service Standards

Standard – target completion 90%	Volume	% age Met
New starts notification – within 20 working days	802	98.63%
Change notification -within 20 days	930	100%
Retirement information- at least 20 working days before	385	96.40%
Early leaver notification-within 20 working days	523	100%
Death in service-within 10 working days	2	100%

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Contribution Payments

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

Employer Body	By Target Date	Late	% On Time
Scottish Borders Council	12	0	100%
Visit Scotland	12	0	100%
Borders College	12	0	100%
Scottish Borders Housing Association	12	0	100%
Jedburgh Leisure Facilities Trust	12	3	75%
Borders Sport and Leisure Trust	12	0	100%
Amey Community Limited	12	0	100%
SB Cares	12	0	100%
South of Scotland Enterprise	13	0	100%

There were three late payments during the year, two of these payments were received within three banking days of the required date. The other late payment was in excess of one month late. Conversations have taken place with the employer to remind them of the requirement to ensure payment is received by the due date and a follow up letter issued. We will continue to 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
Estimates -Transfers In	258	20 days
Estimates -Transfer Out	146	20 days
Estimate -All Other	1,345	10 days

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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
Phone Calls logged	94	5 days
Phone Calls to team	3,174	Not measured
Emails to pensions@scotborders.gov.uk mailbox	8,237	Not measured
Emails to team members directly	4,035	Not measured
Correspondence via Altair	3,725	Not measured
Correspondence via Members Self Service	2,066	Not measured
Total	21,331	

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	21 March 2024
Benefit Statements	By end of August	Issued by 25 August 2023

The ninth liaison meeting, held virtually, with all Admitted and Scheduled Bodies was held during 2023/24 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	749
Early leavers	523
Retirements	385
Deaths in service	2
Deaths in deferment	6
Deaths in retirement	131
New Widow(ers), Child Pensions	44
Estimates	1,345
Pension credit members	0
Pay all Pensioners on 15 th of the month or prior working day when 15 th is a non-banking day	100% achieved

FUND MEMBERSHIP

Member Self Service Statistics

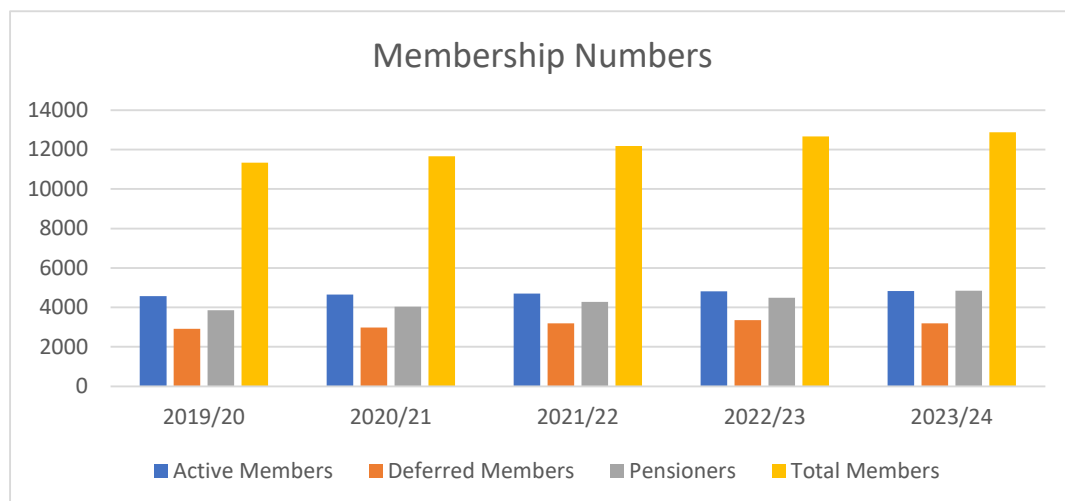
Task	Total Active	Target
Active Members	4,836	100%
Deferred Members	3,195	100%
Benefit calculations run	22,569	

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 12,879, of which 4,836 are actively contributing and 4,848 are in receipt of their benefits. The table over provides a summary of the trends in membership:

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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 2024	Number of Contributors	Pensioners	Deferred Members	Total
Scheduled Bodies:				
Scottish Borders Council	4,365	4,436	2,894	11,695
Borders College	164	129	107	400
	4,529	4,565	3,001	12,095
Scottish Borders Housing Association	48	122	71	241
LIVE Borders	93	85	84	262
Jedburgh Leisure Facilities Trust	2	2	0	4
Amey Community Limited (TUPEE Staff only)	2	11	1	14
CGI (TUPEE Staff only)	23	13	8	44
South of Scotland Enterprise	139	4	10	153
	307	237	174	718
Gala Youth Project	0	1	0	1
Scottish Borders Careers	0	3	1	4
L&B Community Justice Authority	0	3	6	9
BC Consultants	0	19	11	30
Others	0	20	2	22
	0	46	20	66
Total	4,836	4,848	3,195	12,879

COMMUNICATIONS POLICY AND PERFORMANCE

COMMUNICATION POLICY

The Fund approved the current Communications Policy on 22 September 2023. The overall aim of the Communications Policy is to provide communication in an efficient manner to all stakeholders, ensuring that it is:

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

The objective of this policy is to ensure that:

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

The communication methods 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.

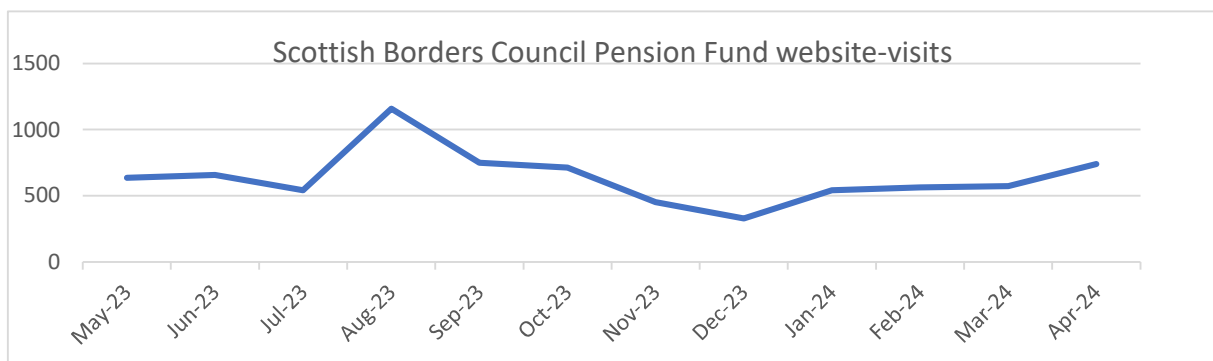
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Pension Committee and Pension Board agendas and minutes can be found on the main Council website, [Scottish Borders Council – Scottish Borders Council \(scotborders.gov.uk\)](https://www.scotborders.gov.uk)

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 tables below details the number of visits to the site over the past 12 months up to end of April 2024. The scheme website can be found at www.scottishborderscouncilpensionfund.org.



COMMUNICATION PERFORMANCE

The following communications took place during 2023/24

- 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.
- Issuing the first edition of our Pension Fund Newsletter in March 2024
- Deployment of Member Self Service with emails issued to all active and deferred 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 (FSS) 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 FSS in effect during 2023/24 was approved by the Pension Fund Committee on 4 March 2021. A copy of this document can be found at [Funding strategy statement - 2021](#)

The FSS states the Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the Government. In the short term – such as the assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long-term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

The latest FSS was approved following the most recent triennial valuation by the Pension Fund Committee on 4 March 2024. It is effective from 1 April 2024 and a copy of this document can be found [Funding Strategy Statement - 2023](#)

ACTUARIAL STATEMENT

Scottish Borders Council Pension Fund (“the Fund”) Actuarial Statement for 2023/24

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy (FSS), dated November 2023. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers’ characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 80% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2023. This valuation revealed that the Fund’s assets, which at 31 March 2023 were valued at £866 million, were sufficient to meet 134% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £218 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers’ contributions for the period 1 April 2024 to 31 March 2027 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2023 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

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Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2023 valuation were as follows:

Financial assumptions	31 March 2023
Discount rate	5.2%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Males	Females	
Current Pensioners	20.6 years	23.3 years
Future Pensioners*	21.2 years	24.9 years

*Currently aged 45

Copies of the 2023 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, asset performance has improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.



Julie West FFA

For and on behalf of Hymans Robertson LLP

23 May 2024

Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282.

A list of members of Hymans Robertson LLP is available for inspection at One London Wall, London EC2Y 5EA, the firm's registered office.

Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

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Actuarial Valuation 2023

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 latest triennial valuation was at 31 March 2023, with the previous valuation 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.

The Actuarial Valuation as at the 31 March 2023 was undertaken during 2023. 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 Pension Fund website [Actuarial valuation report - 2023](#)

The outcome of the 2023 Actuarial Valuation was a funding level of 134% an increase in the position assessed at 2020 of 110%. The funding position equates to a surplus of £217m.

Note 19 to the Statement of Accounts contains details of the outcome and assumptions used in the 2023 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% from 1 April 2021 to 31 March 2024. In agreement with the Actuary a secondary rate of 3.9% was deducted to allow the common rate of contribution as 18% of payroll for financial years 2021/22 and 2022/23. On 1 April 2023 the rate increased 0.5% to 18.5% for 2023/24.

As part of the 2023 Actuarial Valuation, the Actuary certified the primary rate at 21.8% from 1 April 2024 to 31 March 2027. In agreement with the Actuary a secondary rate of 4.8% will be deducted to allow the common rate of contribution as 17% of payroll for the for financial years 2024/25 to 2026/27. The secondary rate will reduce the surplus of the fund of £217m over 50 years.

Individual and pooled employers' rates vary from the common contribution rate (18.5%) 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):

Scottish Borders Council Pension Fund
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Employers Contribution Grouping	Employers Contribution Rate	
	2022/23	2023/24
Scottish Borders Council Common Pool	18.0%	18.5%
Scottish Borders Housing Association - Individual	20.8%	21.3%
CGI	22.0% plus £16,500	22.0% plus £21,000
South of Scotland Enterprise	21.1%	21.6%

Valuation for Statutory Accounts at 31 March 2024

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 an increased net asset position of £144m (£135m 31 March 2023). The present value of the defined benefit obligations increased from £731m to £793m.

However, the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2023 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 2023 Actuarial Valuation which reported a funding position of 134% and investment target returns of 7.7%, the Fund undertook a review of its Statement of Investment Principles and its target asset allocation.

The Statement of Investment Principles ('SIP') is reviewed regularly to reflect any changes agreed by the Pension Fund Committee and Pension Fund Board. The SIP for 2023/2024 was approved on 4 March 2023, and can be found at [Statement of Investment Principles 2023](#)

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 dependents' 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.

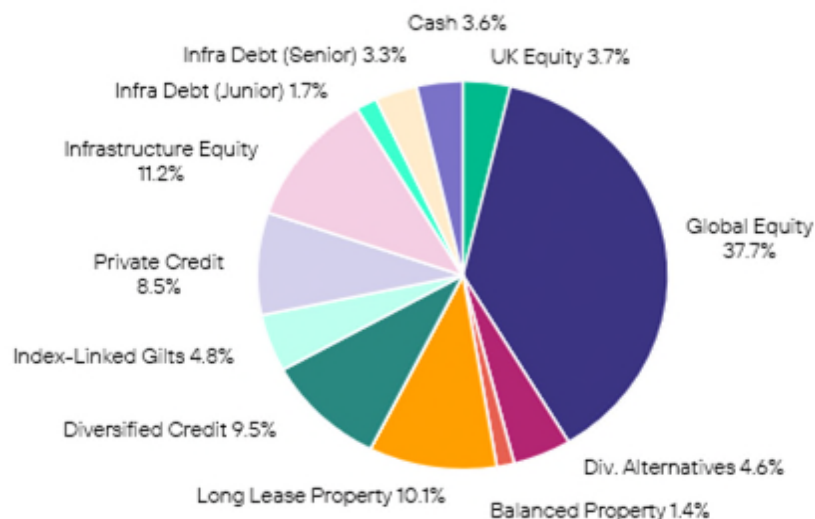
The Fund now has negative cash flow as there are less actively contributing members compared to members receiving pensions. It however also has deferred members who are presently neither contributing to nor receiving benefits from the Fund.

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. The refined strategic assets allocation was followed in 2023/24 and is shown in the revised strategy contained in the SIP.

A full review of the Investment Strategy was carried out following the results of the Actuarial Valuation at 31 March 2023. Subsequent updates were reflected in the revised Investment Strategy for 2024/25 which was approved by the joint Pension Fund Committee and Board on 2 September 2024. Asset allocation as at 31 March 2024 is shown below:



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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. Post-reporting period, in May 2024, the Fund's commitment to the Residential Housing allocation was drawn down.

In addition to the implementation progress noted above, two further mandate additions were made to the Fund over the reporting year. The Fund implemented an investment in Renewable Infrastructure with Quinbrook in October 2023 and introduced an allocation to Natural Capital, specifically Timberland, via the Nuveen Global Timberland Fund in November 2023. While there is currently no strategic allocation to Impact Assets, it is being considered that a formal allocation may be introduced for the Fund as part of the strategy review scheduled to take place in 2024. At this time, the Quinbrook and Nuveen funds could form the seed investment for the Impact Assets allocation. Until the revised strategy is agreed, the new funds are being housed within the Fund's infrastructure equity allocation.

The strategic asset allocation also diversifies the risk exposure in its use of managers. The Fund currently has 13 firms of investment Managers with 19 funds (this excludes the managers used through the collaboration with the Lothian Pension Fund ('LPF')). This number includes the Balanced Property fund with UBS which is currently being wound down following the decision to terminate the asset class as part of the strategy review in 2024 and excludes the Residential Housing fund with CBRE which was funded post-reporting period.

Shown below are the current investment managers for the Fund.



BLACKROCK



Morgan Stanley



nuveen

A TIAA Company

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:



ALINDA

Brookfield



DALMORE CAPITAL



KKR



OAKTREE

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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 shows the position as at 31 March 2024 against the Strategy:

Asset Class	Asset Allocation at 31/3/23 %	Asset Allocation at 31/3/24 %	Strategic Benchmark %
UK Equity	4.0	3.7	3.5
Global Equity	34.0	37.7	36.5
Bonds	19.0	14.4	16.0
Alternatives	13.0	13.1	14.0
Property	13.0	11.4	14.5
Infrastructure ¹	15.0	16.1	15.5
Cash	2.0	3.6	0.0
Total	100.0	100.0	100.0

Investment Manager Allocation

¹ The allocation to Infrastructure as at 31 March 2024 includes the Timberland and Renewable Infrastructure allocations which do not form part of the formal strategic asset allocation.

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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 2023 and 31 March 2024 are shown in the table below (this summarises the managers used through the collaboration with the Lothian Pension Fund (LPF)).

Manager	Mandate Type	31 Mar 2023 (%)	31 Mar 2024 (%)
Baillie Gifford	UK Equities	3.6	3.6
Baillie Gifford	Global Equities	12.3	12.7
Morgan Stanley	Pooled Fund – Global Equities	11.0	12.0
LGIM	Pooled Fund – Global Passive Equities	10.7	11.9
M&G	Pooled Fund – Diversified Income	13.7	9.3
M&G	Pooled Fund – Bonds	5.4	4.7
UBS	Pooled Fund – Property	1.6	1.3
BlackRock	Pooled Fund – Property	11.7	9.8
LGT	Pooled Fund - Alternatives	4.5	4.5
Partners Group	Pooled Fund – Private Credit	5.6	5.3
Permira	Pooled Fund – Private Credit	3.0	3.0
LPF	Infrastructure Equity	5.7	5.3
IFM	Infrastructure	3.5	3.4
Macquarie	Pooled Fund – Infrastructure Debt	5.8	4.8
Quinbrook	Pooled Fund – Renewable Infrastructure	-	1.0
Nuveen	Pooled Fund – Timberland	-	1.0
Cash	Internally Managed Cash & Investments	1.9	6.4

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Holdings

The table below shows the top 20 direct holdings at 31 March 2024. 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	5.0	TSMC	2.1
Meta Platforms Inc	4.6	NVIDIA	2.1
Amazon.com	4.5	Doordash Inc	2.0
Elevance Health Inc	3.8	Analog Devices	1.5
Moody's	3.2	Block Inc	1.5
Mastercard	2.8	AstraZeneca	1.5
CRH	2.5	The Trade Desk	1.4
Service Corp.Intl.	2.4	Bunzl	1.4
Alphabet Inc Class C	2.4	AJ Gallagher & Co	1.4
Prosus N.V.	2.4	Atlas Copco B	1.4

INVESTMENT PERFORMANCE

Market Context

Global markets delivered largely positive returns over the year to 31 March 2024. Despite lingering inflation, periods of volatility and ongoing global geopolitical tensions, there was strong global economic resilience, with positive returns seen across both credit and equity markets over the 12-month period. At the beginning of the reporting period, fears around the March 2023 US regional banking crisis and the possibility that it would spread to the UK had subsided. However, Q2 2023 saw a hiking of interest rates in both economies in an attempt to curb increasing inflation rates. For the US, this meant an increase of 25 bps to 5.25% and in the UK two base rate hikes brought the UK interest rate to 5.0%. Growth markets, especially in the US, remained resilient and enthusiasm around AI boosted the technology market. In October, increased geopolitical tensions in the Middle East dampened market sentiment, coupled with increased uncertainty that interest rates had peaked. In the UK, long-dated gilt yields rose and, in the US, equities declined in the face of more challenging economic conditions. A reversal in expectations drove positive returns in the final two months of 2023, as markets rallied, buoyed by the prospect that central banks may have concluded their interest rate rises and could begin cutting rates in 2024. This sentiment was quickly cut short, as, moving into 2024, investors partially unwound the rate cut trajectory priced in over Q4, as markets priced rate cuts for later than anticipated in 2024.

Equity markets

Global equities performed strongly over the 12-month period, driven by constant, strong earnings growth in the US and improving business conditions. Sustained earnings growth in the US has largely stemmed from the rally in large cap technology stocks, driven by investor excitement around the potential of artificial intelligence. Global equities returned 26.6% (FTSE World, GBP hedged) in local currency terms over the year, while unhedged equities returned 22.5% (FTSE World, unhedged). Against this background, US equities delivered a return of 27.1% (S&P 500, GBP hedged). The UK also delivered a positive return over the period, however, lagged behind its global counterparts, largely due to its value-oriented bias and lack of exposure to technology names. The UK posted a gain of 8.4% (FTSE All Share) for the year. Emerging markets delivered a positive return, but lagged behind their developed market counterparts, as they continue to be hampered by economic growth and regulatory concerns in China. Emerging markets ended the year positive, delivering a return of 6.3% (Morgan Stanley Capital International Emerging Markets, GBP hedged).

Bonds

Credit market performance was mixed as nominal and index-linked gilt returns were negative over the period, whereas Global high yield and UK Investment Grade Credit delivered positive returns. Credit spreads continued to narrow, as higher all-in yields attracted investor inflows, and economic data improved. UK investment grade credit ended the year posting a positive return of 7.2% (Bank of America Merrill Lynch Sterling Non-Gilt). Global high yield credit delivered a negative return of 10.9% (Bank of America Merrill Lynch Global High Yield (GBP Hedged)).

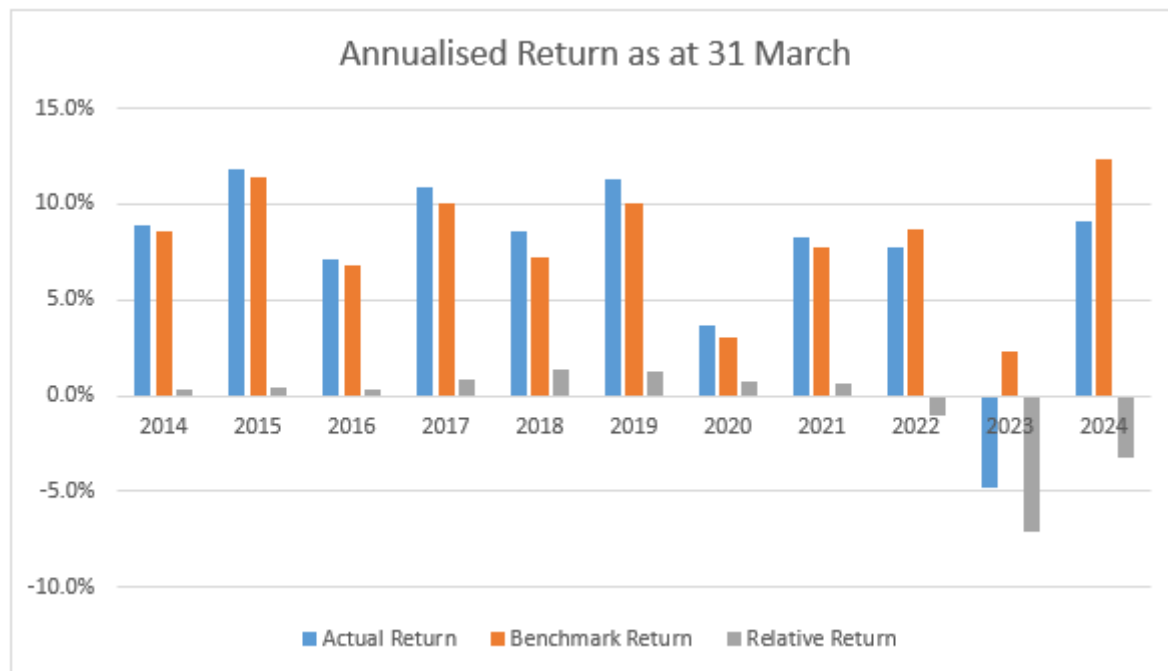
Fixed interest gilts (FTSE Gilts Over 15 years) and index-linked gilts (FTSE Index Linked Gilts Over 5 years) returned -3.6% and -2.4% over the period respectively, driven by the Bank of England's rate hiking cycle inflation expectations falling slower than previously anticipated.

The UK property market also produced negative performance of -1.4% over the period with capital values falling but continuing to stabilise by the end of the period.

FUND PERFORMANCE

The Fund's investment returns delivered a return of 9.1% (-4.8% 2022/23) against a benchmark of 12.3% (2.3% 2022/23) for the year to 31 March 2024. Overall, the Fund's assets increased by £72m from 31 March 2023. Positive absolute performance was driven by the Fund's global equity mandates as equity markets continued to benefit from increased investor optimism around a "no landing" scenario and the performance of the "Magnificent 7" technology stocks which dominate the market. Relative underperformance was driven by the Fund's Property and Infrastructure mandates as they continue to be impacted by the uncertainty over the future path of interest rates. The performance of the mandates remains in line with the wider UK Commercial Property and Infrastructure Markets. Our investment consultants reported the Fund's funding position improved, as the value of the Fund's assets increased, whilst the value placed on the Fund's liabilities decreased due to the rise in gilt yields.

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

Return on Investment as at 31/03/2024	1 year rolling return		3 year rolling return	
	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	9.1	12.3	3.3	8.3
Global Equities	18.5	21.5	4.9	11.1
UK Equities	6.2	8.4	1.8	8.1
Bonds	6.2	3.7	-0.3	-0.2
Alternatives	5.7	8.8	5.2	7.5
Property	-3.5	6.2	-0.5	11.0
Cash	-	-	-	-

The majority of the Fund's mandates contributed to the Fund's positive absolute performance over the last 12 months, reflecting the resilience of growth markets amid uncertain economic forecasts and elevated interest rates. The notable exceptions were the Fund's property, index-linked gilt and junior infrastructure debt mandates which detracted in absolute terms. The relative performance of the Fund over the past 12 months was negative, as many of its underlying mandates trailed their respective performance objectives.

The key driver of the underperformance of the Fund's property mandates was in line with that of the previous reporting period – rising interest rates as central banks continued with their attempts to tackle persistent inflationary pressures. This environment resulted in a fall in the capital values of the underlying property assets within the managers' respective portfolios. Equity underperformance can be largely attributed to the underperformance of the

Fund's Baillie Gifford mandates as their growth-style investment approach continued to underperform in the rising interest rate environment. The junior infrastructure debt mandate also notably underperformed over the period. This underperformance was driven by specific factors which impacted individual investments within the portfolio, rather than wider market trends.



RESPONSIBLE INVESTMENT

The Fund's overriding obligation is to act in the best interests of the Fund's 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 & the UK 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 priorities when it comes to responsible investment. 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 current 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. Two clear examples of this were the recent allocations to a Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK.



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 2oC above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5oC above preindustrial 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

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Agreement's goals of limiting global average temperature increase to well below 2oC 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. As part of this the Fund became a supporter of TCFD in Q2 2023/24.

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 2024 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 material accounting policy information. 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 2023/24 (the 2023/24 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 2024 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 2023/24 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 and Scottish Borders Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Director of Finance 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 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 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.

Scottish Borders 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 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 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 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. This description forms part of my auditor's report.

Reporting on other requirements

Other information

The Director of Finance 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

26 September 2024

CONTACTS

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

Pensions Team

Telephone 01835 – 825052/3

E-mail pensions@scotborders.gov.uk

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

or visit Scottish Borders Council Pension Fund website at:

www.scottishborderscouncilpensionfund.org

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

Suzanne Douglas

Telephone 01835 – 824000 ext. 5881

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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