



ANNUAL REPORT AND ACCOUNTS
SCOTTISH BORDERS COUNCIL PENSION FUND
FOR THE YEAR TO 31 MARCH 2014

Contents

	Page
Foreword by Chief Financial Officer	2
Review of the Year	
Fund Performance	5
Investment Strategy	6
Investment Performance	7
Fund Update	9
Statement of Responsibilities for the Statement of Accounts	12
Statement on the System of Internal Financial Control	13
Statement of Accounts 2013/14	
Fund Account	15
Net Assets Statement	16
Notes to the Accounts	17
Governance Compliance Statement	31
Annex 1 Governance Policy	35
Annex 2 Pension Administration Performance 2013/14	41
Annex 3 Annual Actuarial Statement	46
Annex 4 Glossary of Terms	55
Additional Information	57
Independent Auditor's Report	58

FOREWORD BY CHIEF FINANCIAL OFFICER

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2014.

The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 210/349) require the Council, as administering authority for the Fund, to produce a separate statement of accounts for the Pension Fund and incorporate it into an Annual Report.

This Annual report has been produced to provide Elected Members, Employers, scheme members and other interested parties with information concerning the administration and performance of the fund in financial year 2013/14 and I hope you find its content useful.

The Statement of Accounts contained in this report present the Fund's financial position for the year ended 31 March 2014. These have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 ("the Code"), supported by International Financial Reporting Standards (IFRS).

The Annual Report also contains a Governance Compliance Statement which demonstrates how well the Fund complies with the best practice principles set out by the Scottish Government.

Key Facts And Figures

Value of the Fund at 31 March 2014 was £486 million (£446m at 31 March 2013).

The Increase in the Value of the Fund has been achieved predominantly through gains achieved on sales of investments.

An Operational and Investment Income Surplus of £3.5 million was generated on the activities of the fund (compared to £5.1m for year ended 31 March 2013).

Performance of the Fund on a three year rolling average basis has been 8.9% p.a., giving a relative return above benchmark of 0.3%.

Fund membership increased by 245 to 9,556.

Employers contributed £12.8 million to the Fund (£13.4m to 31 March 2013).

Employees contributed £4.4 million (£4.3m to 31 March 2013).

Pension and other benefits paid out were £17.2 million (£17.1m to 31 March 2013).

Net Transfer values paid out of the Fund because staff changed employers were £0.4 million (£0.1m net value paid into the fund for the year to 31 March 2013).

Highlights for the Year

Investment Returns

2013/14 saw an improvement of economic circumstances in some areas, but conditions remained volatile in investment markets during the year. Despite this the value of the Fund grew to £486m at 31 March 2014, largely driven by the growth in the Funds equity investments. The overall performance of the Fund was 8.9% based on a 3 year rolling average basis, outperforming the benchmark by 0.3% and the local authority weighted average return over the same period by 1.5%.

De risking the portfolio

Against a volatile economic backdrop the Fund has continued to deliver sound investment returns while seeking to de-risk its investment portfolio in line with the agreed asset allocation strategy. The Fund has a diversified portfolio over four Fund Managers, UBS, Baillie Gifford, Morgan Stanley and LGT Capital Partners. The Fund is currently invested in Global Equities, UK Equities, Bonds, Property and Multi Alternatives.

Governance

The Fund, in 2012/13, fully complied with the Governance Compliance Framework required by the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 including the establishment of a training framework for elected members and officers. The Fund continues to be fully compliant in 2013/14. The governance compliance framework measures the compliance of the fund against best practice standards set by Scottish Ministers, as set out in the Governance Compliance Statement on page 31.

Actuarial Valuation

The Fund's assets at the last triennial valuation undertaken in March 2011 were estimated to be sufficient to cover 95.7% of its future obligations to pay pension benefits. The long term view is that the Fund remains in a healthy state with the deficit recovery period to return to 100% funding remaining at 12 years. The net result of these changes was that the employers' contribution rate has been maintained at 18%. Following this last valuation, an Investment Strategy Review was undertaken by the Investment Advisers, AON Hewitt, and resulted in the agreement to slightly amend the Strategic Asset Benchmark for 2013/14. These were reviewed again in September 2013 and agreed to delay the reduction in equity due to the market conditions.

Pensions Reform

Consultation on the reform of Scottish LGPS Funds took place in 2013/14 but the out come of the consultation is as yet not fully known. The Fund will continue to participate in the discussions and prepare where possible for any required changes.

Pensions Administration Strategy

2013/14 was the second year of the Pensions Administration Strategy and its incorporation of this into the Annual Report. This allows the fund to monitor performance against a range of service standards and key performance measures. Details are included in Annex 2 (page 41) of this report.

Auto Enrolment

At the meeting held on 25 April 2013 it was agreed that Scottish Borders Council would implement the transitional arrangements for pensions automatic enrolment for existing employees of the Scottish Borders Council. Additionally, it was agreed to implement the three month postponement period for new employees where the contract of employment is for a period not exceeding three months. This approach helped to ease the administrative burden on Pension Fund and Scottish Borders Council as the main employer. Whilst the Council adopted this approach the active communication of the scheme availability has resulted in a number of employees opting to join the Pension Scheme in advance of the 2017 date.

The other Scheduled and Active Admitted Bodies have staging dates ranging from 1 February 2014 to 1 November 2016. Borders College with a staging date of 1 February 2014 and Scottish Borders Housing Association with a staging date of 1 April 2014. Meetings will be scheduled with the other employer bodies to determine the approach that they will be taking with Auto Enrolment and provide any necessary assistance.

Investment Monitoring

The Pension Fund Committee is provided with quarterly update reports on the performance of investment. These reports are provided by Aon Hewitt the Fund's independent investment advisors. These are also augmented by submissions of performance and regular presentations from the Fund managers to the Pension Fund Committee through out the year. In addition an annual skill/knowledge assessment is undertaken by Members to identify training requirements which are then incorporated in the annual training plan. The assessment for current year identified increased confidence of Members in their knowledge and skills in the area of investments.

Currency management

The temporary appointment of State Street in March 2013 for a 50% passive currency hedge has remained in place during 2013/14. This arrangement has been extended to 31 May 2015. The Pension Fund Committee has approved a procurement to commence early 2014 for a 25% passive and 25% active approach Currency Hedge Manager.

Acknowledgement

I would like to thank the Councillors and Lay Members of the Pension Fund Sub-Committee and my colleagues within the Council for their hard work and commitment during the year. In particular my thanks are extended to colleagues in Corporate Finance and HR Shared Services and our investment managers AON Hewitt for their ongoing commitment to ensuring the Fund's continued success.

David Robertson CPFA
Chief Financial Officer
2014

REVIEW OF THE YEAR

Fund Performance

Despite the slow economic recovery the Fund has, over the last year, continued to rise in value to £486m by 31 March 2014 (from £446m at 31 March 2013). Over the year the fund generated a return of 9.4% (inclusive of the currency overlay), which was 0.3% above the benchmark return of 9.1%. This rise was predominantly due to realised gains on disposals within the Baillie Gifford and UBS equity portfolios over the year.

There was a rebalancing of the Fund's investment portfolio during 2013/14, with £42.4m added to the alternative assets portfolio, funded by disinvestments from the UBS Global Equities and UK Equities Passive Portfolios, and the Baillie Gifford UK and Global Portfolios.

Of the £40.1m increase in the value of the Fund, £27.1m was realised through gains on sales of investments. £9.1m was also added to the Fund in the year through the realisation of quarterly currency hedges. There was a net deficit from dealing with members during 2013/14 of £0.8m (2013: £0.1m surplus). Net investment income (dividends and interest) and unrealised movement in the market value of the Fund accounted for the remaining change in value of the Fund.

Detail of the performance of the asset classes of the Fund against benchmarks is shown on page 8.

(* m = million)

"Realised and Unrealised" Gains and Losses.

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

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

Our Accounts are however based on the market value of investments at 31 March 2014. This means that we have to show what profit or loss we would have made if we had sold all our investments on that day. The result is a notional "unrealised" profit or loss.

REVIEW OF THE YEAR

Investment Strategy

The following table indicates the 31 March 2014 position in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

Asset Class	Asset Allocation at 31/3/14 %	Strategic Benchmark %
UK Equity	19.1	19.0
Global Equity	45.8	46.0
Govt Fixed Interest Bonds	3.2	6.5
Corporate Fixed Interest Bonds	7.7	6.5
Multi Asset Fund	17.4	17.0
Property	4.4	5.0
Cash	2.4	0.0
Total	100	100

Following an Investment Strategy Review undertaken by the Fund's Investment Adviser, AON Hewitt, the asset allocation to alternative assets was increased and the allocation to equities was reduced. This rebalancing of the portfolio was implemented at the end of May 2013.

The changes agreed were incorporated into the revised Statement of Investment Principles (SIP) which was approved at Pension Fund Committee in December 2013.

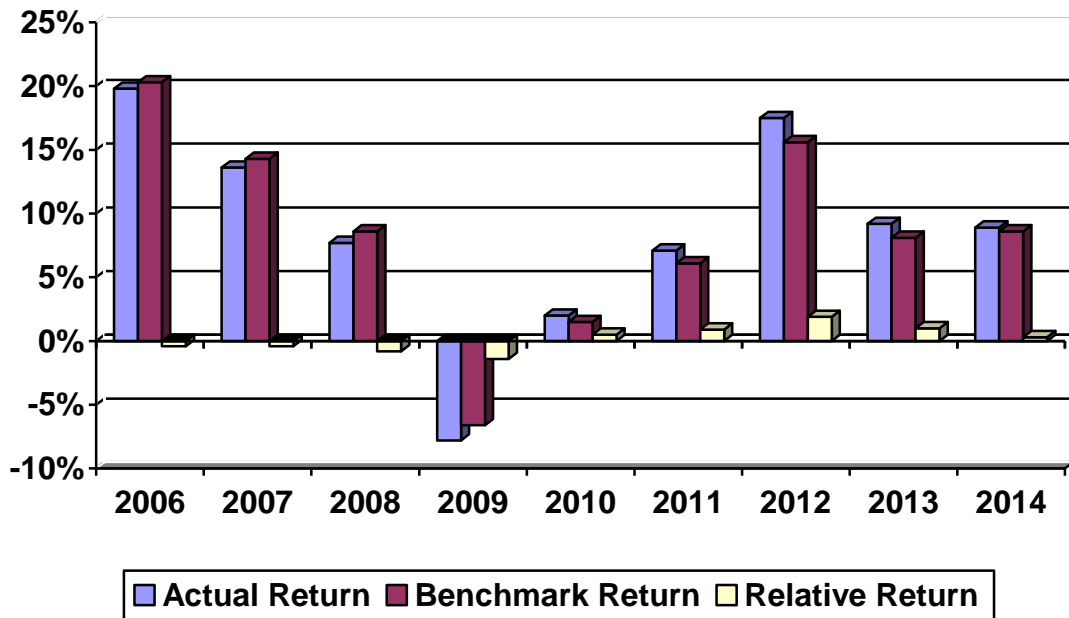
REVIEW OF THE YEAR

Investment Performance

The Fund's performance against benchmark is highlighted in the chart and table below. Including the impact of the passive currency hedge, the overall fund return over 3 years was 8.9% p.a. versus the benchmark of 8.6% p.a., and the fund return over 1 year was 9.4% p.a. compared to a benchmark of 9.1% p.a. Excluding the impact of the currency hedge, the fund return over 3 years was 8.6% p.a. versus a benchmark of 8.2% p.a. and the fund return over 1 year was 7.6% p.a. versus a benchmark of 6.8 p.a.

Normally about 1 – 2% of the Fund is managed internally at any one time – this is largely cash to cover potential exposures on the passive currency hedge, to meet current operational expenses, or awaiting transfer to external fund managers.

Annualised 3 year returns ending 31 March



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

<i>Return on Investment</i>	1 year rolling Return			3 year rolling return		
	SBC %	Bench ¹ %	LA ² %	SBC %	Bench ¹ %	LA ² %
Total Fund inc Hedging	9.4	9.1	6.4	8.9	8.6	7.4
Total Fund ex Hedging	7.6	6.8	N/A	8.6	8.2	N/A
Global Equities inc UK	11.9	8.8	8.6	9.2	9.2	8.4
UK Equities	9.7	8.8	11.3	10.2	8.8	10.3
Total Bonds	-0.3	-0.1	-1.6	8.6	8.8	7.0
UK Government Bonds	-2.7	-3.1	-2.1	9.1	8.7	6.5
UK Corporate Bonds	0.8	1.5	2.0	6.4	7.3	7.4
Property	12.4	11.1	11.0	6.4	5.9	6.2
Alternatives	3.4	4.5	3.1	N/A	N/A	5.1
Cash	1.3	N/A	1.4	0.3	N/A	1.6

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

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

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

The top 20 direct equity holdings at 31 March 2014 were

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Prudential	4.3	Ebay	2.0
Google	3.6	Svenska Handelsbanken	2.0
Naspers	3.0	Samsung Electronics	1.9
Royal Caribbean Cruises	2.7	Ultra Petroleum	1.8
Nestle	2.6	Moodys Corp	1.8
Roche	2.4	Bunzl	1.8
British American Tobacco	2.3	Amazon	1.8
TD Ameritrade	2.1	Harley Davidson	1.7
Rolls-Royce	2.1	M&T Bank Corp	1.7
Ryanair	2.0	EOG Resources	1.7

Fund Update

Fund Governance

In composition and Membership of the Pension Fund Committee has remained the same during 2013/14. The Committee consists of seven Committee Members, including the Chair and five further none voting representatives. The none-voting representatives are a Scheduled Body, an Admitted Bodies and three recognised Trade Unions. The Committee has fully engaged with its agenda and participated in the activities to develop their knowledge and understanding

As a result of all the work in previous years the Fund is able to demonstrate full compliance with the relevant best practice standards and this is set out in the Governance Compliance Statement at page 31.

Training Policy

The Training Policy for the Fund agreed in September 2012 has been embedded with the annual training plan approved in September 2013. The training plan was designed based on a baseline assessment of the member and observers skills and knowledge. The Policy set out two targets for Training and that was to attend at least 2 training sessions and 2 Committee meetings per year. The following table sets out the elected members' attendance performance since the Policy was agreed:

<i>No. of Members</i>	Committee	Training
% Attendance		
100% (4 sessions or more)	2	3
75% (3 sessions)	3	2
50% (2 sessions)	2	1
25% (1 session)		1
0% (0 sessions)		

All Members have met the target for attendance at Committee meetings and six out of seven Members have met the target for attendance at Training sessions. This demonstrates a continued high level of engagement of this Policy with the Committee attendance target being fully met and the training attendance target being met by 85% of the membership.

The training activities have covered internal events on key controls, Accounting & Audit requirement, Pension Administration, General regulatory pension environment, LGPS regulatory environment, Emerging Markets. External training opportunities have also been undertaken covering investments, LGPS governance and challenges facing LGPS based on the 2012 tri-annual revaluation in England and Wales.

Membership Details

Member Status	As at 31/3/2012	As at 31/3/2013	As at 31/3/2014
Contributing	4,230	4,298	4,366
Deferred	2,164	2,242	2,292
Pensioners/Dependants	2,611	2,771	2,898
Total	9,005	9,311	9,556

Contributing Member	<i>Someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an “active” member.</i>
Deferred Member	<i>Someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.</i>
Pensioner/Dependant Member	<i>Someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.</i>

Employer Bodies

The Fund invests and administers pensions on behalf of 14 employers in the Scottish Borders. These include Scheduled Bodies, brought into the Fund by legislation, and Admitted Bodies, which choose to join the Fund. The detailed listing of employers, their membership numbers and contribution rate is contained in Note 20 of the Statement of Annual Accounts for the Fund (page 24). Borders Sport and Leisure operates a de-pooled fund as agreed previously by the Committee. The other employers remain in a pooled fund. However this will be reviewed following the tri-annual actuarial revaluation to reflect the move of Scottish Borders Housing Association to a closed fund.

Pensions Administration Strategy

The Pension Fund Committee (PFC) approved a Pensions Administration Strategy for the Fund for 2012/13 at the meeting in June 2012. This Strategy sets out employer and Fund roles and responsibilities, and defines the service performance standards. The performance against these standards will be monitored through the Pension Fund Committee and reported in the Annual Report. The report highlighting performance against the standards detailed in the strategy is set out in Annex 2 on page 41.

The key service standards that have been set out in the new strategy include:

	Performance Standard
Pension Estimate Turnaround Time	Within 10 working days
Query Response Time	Within 10 working days
Annual Benefit Statements	All issued by 30 October 2013

This has been the second year of the Strategy areas for improvement were identified, developed and implemented surrounding query data recording methodologies during 2013/14. The development of a schedule of Employer Liaison Meetings remains an area for progression which will be implemented during 2014/15 as we move towards the implementation of the 2015 LGPS reforms.

Actuarial Valuation

Annex 3 contains the formal Actuarial Statement for 2012/13 which is prepared in line with the International Accounting Standard (IAS) 26 and supports the preparation of the Financial Statements for the Pension Fund.

In addition, under LGPS requirements the Fund undertook its triennial valuation as at the 31 March 2011 which identifies the long term funding position for the Fund and the appropriate employer contribution rates.

The valuation shows that the **funding level of the Fund as at 31 March 2011 was 95.7%** which compares with 96.5% at the previous March 2008 valuation and 93% at the March 2005 valuation.

The slight decline in the funding level between 2008 and 2011 was due to a number of factors but primarily due to a lower than assumed level of investment returns. However this position is improved by a combination of other factors including:

- The move from RPI to CPI as the basis for pension increases
- The increasing of State Pension Age by 1 year
- Short term Pay Increase Adjustment linked to the Public Sector pay freezes

As a result of the valuation process, the Fund's actuary (Barnett Waddingham) recommended the continuation of a common contribution rate of 18% of payroll for the main Funding Pool of employers, of which 2.1% is for the past service rate deficit recovery and the balance for the future service rate. The deficit recovery period is intended to restore the funding position to 100% over the next 12 years. The contribution rate of 18.5% for the Leisure Trust Funding Pool was also recommended to be continued.

The request from Borders Sport and Leisure to be de-pooled from the Leisure Trust Funding Pool from 2013/14 has been agreed by the Committee and this will create an employer specific contribution rate for this employer going forward.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required to:

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

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, as updated by the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) and supporting guidance issued by the Scottish Government.

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

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

The Chief Financial Officer has also:

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

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Scottish Borders Council Pension Fund as at 31 March 2014, and of its income and expenditure for the year ended 31 March 2014.

David Robertson CPFA
Chief Financial Officer
2014

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

1. This statement is given in respect of the Accounts for Scottish Borders Council Pension Fund. As Statutory Officer for Finance (Section 95 officer) for the Council, I acknowledge my responsibility for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate advice is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.
2. The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, committees and sub-committees, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, this includes:
 - (a) Comprehensive accounting systems that record income and expenditure for both member and investment activities,
 - (b) Regular reviews of investment reports that measure investment returns against agreed benchmarks,
 - (c) Regular reviews of investment manager reports that measure performance against agreed targets, and
 - (d) Independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.
3. The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.
4. The Pension Fund responds to findings and recommendations of external audit, scrutiny and inspection bodies and its own independent internal audit section. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.
5. The Head of Audit & Risk (HIA) reports to the Chief Executive and the Audit Committee and meets regularly with the Chief Financial Officer and Monitoring Officer. The HIA reports in her own name and retains final edit rights over all internal audit reports and provides an independent and objective annual assurance statement on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review of the Council's arrangements.
6. My review of the effectiveness of the system of internal financial control is informed by:
 - (a) The work of the Internal Auditors as described above;
 - (b) The work of professional accountancy staff within the Council;
 - (c) The External Auditors' reports; and
 - (d) The annual review of the effectiveness of its overall governance framework is presented to the Audit Committee whose role includes high level oversight of the Council's governance, risk management, and internal control arrangements. The review is informed by the work of an officer self-evaluation working group on corporate governance, by assurances from directors who have responsibility for the development and maintenance of the governance

environment within their department and who in turn identify actions to improve governance at a departmental level, The Head of Audit & Risk's annual report on the work of internal audit and independent opinion on the adequacy and effectiveness of the systems of internal control and governance, and by comments made by external auditors and other external scrutiny bodies and inspection agencies.

7. I have undertaken the role of the Statutory Officer for Finance (Section 95 Officer), whose duties include putting in place the arrangements for the proper administration of financial affairs of the Pension Fund, for the 2013/14 financial year. Having reviewed the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems during the year ended 31 March 2014.
8. However, I have noted that work in the following areas would further enhance the internal financial control environment to manage financial risks:
 - (a) The ongoing implementation of:
 - Recommendations made by Internal Audit and External Audit, with particular emphasis on prompt implementation of high priority recommendations.
 - The regular review and compliance testing of Procedural Standing Orders, Financial Regulations and the Scheme of Delegation and the formal adoption of these by the Pension Fund.
 - (b) Using the information of the triennial valuation currently being produced, a review be undertaken of the Investment Strategy and any changes reflected in the Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP).

Signed

David Robertson CPFA
Chief Financial Officer
2014

STATEMENT OF ACCOUNTS 2013/14 FUND ACCOUNT

2012/13 £'000		2013/14 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme		
17,673	Contributions Receivable	17,184	6,14
918	Transfers In	1,096	7
18,591		18,280	
(17,078)	Benefits Payable	(17,230)	8,14
(1,087)	Payments to and on account of leavers	(1,466)	9
(278)	Administration expenses	(366)	
(18,443)		(19,062)	
148	Net Additions/(Withdrawals) from dealings with members	(782)	
	Return on Investments		
6,108	Investment Income	5,264	10
47,447	Profits and losses on disposal of investments and changes in the market value of investments	36,708	11
(199)	Taxes on Income	(162)	
(951)	Investment Management Expenses	(890)	
52,405	Net Return on Investments	40,920	
52,553	Net increase/(decrease) in the Fund during the year	40,138	
393,404	Opening Net Assets of the Scheme	445,957	
445,957	Closing Net Assets of the Scheme	486,095	

NET ASSETS STATEMENT as at 31 March 2014

2013 £'000		2014 £'000	Notes
	Investment Assets		
15,789	Fixed Interest - Public Sector	15,372	} 12,13
634	Fixed Interest – Other	-	
191,583	Equities	186,552	
	Managed Funds		
18,251	Property	21,348	
63,094	UK Equities- Passive	61,246	
36,239	Bonds	37,270	
70,297	Global Equities	64,943	
39,376	Alternatives	83,987	
2,254	Open Ended Investment Contracts	1,368	
1,010	Derivatives – Forward Foreign Exchange	(126)	
5,903	Cash Deposits	11,650	
444,430		483,610	
899	Other Investment Balances	1,000	
	Current Assets & Liabilities		
698	Cash Balances	2,279	
134	Contributions due from Employers	129	
1,098	Other Current Assets	313	
(1,302)	Other Current Liabilities	(1,236)	
628		1,485	
445,957	Net Assets	486,095	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in the Actuarial Statement in Annex 3.

David Robertson CPFA
Chief Financial Officer
2014

NOTES TO THE ANNUAL ACCOUNTS

1 THE LOCAL GOVERNMENT PENSION SCHEME

The Local Government Pension Scheme is a funded defined benefit, final salary scheme, established under the Superannuation Act 1972, with pensioners receiving index-linked pensions. It is administered by Scottish Borders Council in accordance with The Local Government Pension Scheme (Scotland) Regulations 2008 (as amended) and is contracted out of the State Second Pension. The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Local authorities responsible for administering a pension fund that forms part of the local government pension scheme (LGPS) are required by an amendment to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report, which is required to include financial statements. Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Scottish Government issued accounting guidance for the Local Government Pension Scheme (LGPS) financial statements in Finance Circular 1/2011, which clarified that pension fund financial statements within the annual report should be prepared in accordance with proper accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). LGPS financial statements are also required to receive a separate audit report.

3 STATEMENT OF ACCOUNTING POLICIES

A summary of the more important accounting policies has been set out below:

Actuarial Liabilities

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is disclosed in the actuarial statement in Annex 3.

Accruals Basis

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

Valuation of Investments

Investments listed on recognised Stock Exchanges are valued at the bid price on the closing business day. Other securities are valued at a price which is considered the most appropriate in the opinion of the investment managers. The processes of the fund managers, who are listed in Note 17, 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).

Currency Translation

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

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 Local Government Pension Scheme 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.

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

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.

Cash and Cash Equivalents

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

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.

Additional Voluntary Contributions (AVCs)

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2014 was £0.754m (2012/13 £0.846m). During the year contributions in totalled £0.08m, while payments out of the AVC fund totalled £0.22m. In accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998, AVCs are not included in the Pension Fund accounts.

4 ACTUARIAL VALUATION

The actuarial valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate. It also sets the future rates of contributions payable by employers.

The most recent full actuarial valuation based on the projected unit methodology was undertaken for the Fund as at 31 March 2011 and was completed during the financial year 2011/12 by the Fund's actuaries Barnett Waddingham. The funding level of the Fund as at the 31 March 2011 was 95.7%,

slightly below the valuation as at 31 March 2008. The following table summarises the funding position.

Past Service Funding Position – Scottish Borders Council Pension Fund

Valuation Date	2008 £m	2011 £m
Value of the Scheme Liabilities	310.1	402.2
Smoothed Asset Value	299.2	384.8
Surplus/ (Deficit)	(10.9)	(17.4)
Funding Level	96.5%	95.7%

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two. The actuary certified a common rate of contribution of 18% of payroll which represented a small increase compared to the position as at the valuation date.

The next detailed actuarial valuation will be carried out for the Fund as at 31st March 2014.

5 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS 19) assumptions, is estimated to be £713.88m (2013: £616.26m). This figure is used for statutory accounting purposes by Scottish Borders Council Pension Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed in the Actuarial Statement - see Annex 3. The figure is only prepared for the purposes of IAS 26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

6 CONTRIBUTIONS RECEIVABLE

2012/13				2013/14		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
12,543	4,234	16,777	Normal	12,749	4,318	17,067
855	-	855	Special/Pension Fund Strain	80	-	80
-	41	41	Additional Voluntary	-	37	37
13,398	4,275	17,673	Total	12,829	4,355	17,184

7 TRANSFERS IN

There were no group transfers in to the scheme during 2013/14 or 2012/13 and the total of £1.096m (2012/13: £0.918m) represents the total of transfer values in respect of individual members joining the scheme.

8 BENEFITS PAYABLE

2012/13 £'000		2013/14 £'000
13,186	Pension Payments	13,781
3,892	Lump Sums/Death Benefits	3,449
17,078		17,230

9 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2012/13 £'000		2013/14 £'000
39	Contributions Returned	40
1,048	Individual Transfers to other Schemes	1,426
1,087		1,466

10 INVESTMENT INCOME

2012/13 £'000		2013/14 £'000
(601)	Income from Fixed Interest Securities	(527)
(5,015)	Dividends from Equities	(4,151)
(460)	Income from Pooled Investment Vehicles	(555)
(32)	Interest on Cash Deposits	(31)
(6,108)		(5,264)

11 CHANGE IN THE MARKET VALUE OF INVESTMENTS

2012/13 £'000		2013/14 £'000
(10,416)	Realised	(36,161)
(37,031)	Unrealised	(547)
(47,447)	Total	(36,708)

12 MARKET VALUE OF THE SCHEME'S INVESTMENT ASSETS

As at 31 March 2014 the market value of the assets under management, broken down by manager and mandate was

31 March 2013		Manager	Portfolio/Mandate	31 March 2014	
£'000	%			£'000	%
53,255	11.98	UBS	Bonds	52,735	10.90
63,094	14.20	UBS	UK Equities - Passive	61,247	12.66
35,363	7.96	Baillie Gifford	UK Equities	32,065	6.63
109,851	24.72	Baillie Gifford	Global Equities	109,258	22.59
50,967	11.47	UBS	Global Equities	49,283	10.19
19,025	4.28	UBS	Property	21,431	4.43
70,297	15.82	Morgan Stanley	Managed Fund – Global Equities	64,943	13.43
39,376	8.86	LGT	Managed Fund - Alternatives	83,987	17.37
1,010	0.22	State Street	Derivative – Passive Currency Hedge	(126)	(0.02)
2,192	0.49	Internal	Internal	8,787	1.82
444,430	100.0			483,610	100.0

13 ANALYSIS OF INVESTMENT ASSETS

2012/13				2013/14		
UK £'000	Overseas £'000	Total £'000		UK £'000	Overseas £'000	Total £'000
			Investment Assets			
15,789	-	15,789	Fixed Interest – Public Sector	15,372	-	15,372
634	-	634	Fixed Interest – Other	-	-	-
48,836	142,747	191,583	Equities	48,187	138,365	186,552
			Managed Funds			
18,251	-	18,251	Property	21,348	-	21,348
63,094	-	63,094	Passive Equities	61,246	-	61,246
36,239	-	36,239	Bonds	37,270	-	37,270
-	70,297	70,297	Global Equities	-	64,943	64,943
-	39,376	39,376	Alternatives	-	83,987	83,987
2,254	-	2,254	Open Ended Investment Contracts	1,368	-	1,368
1,010	-	1,010	Derivative – Passive Currency Hedge	(126)	-	(126)
4,328	1,575	5,903	Cash Deposits	10,582	1,068	11,650
190,435	253,995	444,430		195,247	288,363	483,610

As at 31 March 2014 assets valued at £388.1m were quoted on the Stock Exchange (31 March 2013: £398.1m). The investments in the alternatives portfolio, managed by LGT Capital Partners (£83.99m at 31 March 2014), are not quoted on a stock exchange. During 2013/14, sales of investments totalled £89.03m and purchases totalled £93.73m. Transaction costs are included in the cost of purchases and sales proceeds.

The Fund has in place a passive currency hedging programme, using forward foreign exchange contracts, which hedges 50% of exposure on specific overseas currencies on its overseas equity investments. All contracts are traded on an over the counter basis. The forward currency contracts outstanding at 31 March 2014 were hedging a foreign currency exposure value of £90.79m and had a market value of a loss of £0.12m. These contracts had a settlement date of 12 June 2014.

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2014. Each of the investments comprises units in a managed fund.

	Total £'000
UBS Life UK Equity Tracker Fund 'A' Units	61,246
UBS Corporate Bond UK Plus Fund	37,270
Morgan Stanley Global Brands Fund	64,943
LGT Crown SBC Segregated Portfolio	83,987

Alternative asset portfolio at 31 March 2014

The investment in the alternative asset portfolio, managed by LGT and valued at £83.99m at 31 March 2014, is allocated to the following asset classes at 31 March 2014: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities and Private Equity.

(GTAA – Global Tactical Asset Allocation)

Investment Transactions

	Opening Market Value	Purchases & Derivative Payments	Sales & Derivative Receipts	Other Movements *	Closing Market Value
	£'000	£'000	£'000	£'000	£'000
Investment Assets					
Fixed Interest – Public Sector	15,789	3,645	(3,106)	(956)	15,372
Fixed Interest – Other	634	-	(598)	(36)	-
Equities	191,583	44,245	(68,805)	19,529	186,552
Managed Funds					
Property	18,251	2,338	(1,094)	1,853	21,348
UK Equities - Passive	63,094	-	(7,600)	5,752	61,246
Bonds	36,239	1,080	-	(49)	37,270
Open Ended Investment Contracts	2,254	23	(1,328)	419	1,368
Global Equities	70,297	-	(6,500)	1,146	64,943
Multi-Asset	39,376	42,400	-	2,211	83,987
Derivative – Passive Currency Hedge	1,010	-	(9,089)	7,953	(126)
	438,527	93,731	(98,120)	37,822	471,960

* £42.4m was invested in the LGT multi-asset portfolio during 2013/14. This was funded by proceeds raised from the sale of investments in the following funds: Equities (£28.3m), Managed Funds – Global Equities (£6.5m) and Passive Equities (£7.5m).

14 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

	2013/14	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	16,452	15,569
Scheduled Bodies	221	518
Admitted Bodies	557	1,097
Total	17,230	17,184

15 AUDITOR'S REMUNERATION

In 2013/14 the agreed audit fee for the year was £23,000. There were no other fees incurred during 2013/14 in respect of services provided by KPMG, the Pension Fund's auditor.

16 STATEMENT OF INVESTMENT PRINCIPLES AND FUNDING STRATEGY STATEMENT

The Pension Fund Committee ("the Committee") approved its current Statement of Investment Principles on 4 December 2013. The Statement defines the Fund's operational framework insofar as investments are concerned. It is reviewed periodically to ensure that it continues to reflect the needs of the Fund and the views of its stakeholders. On that 12 September 2013 the Committee approved its revised Funding Strategy Statement. The Statement defines how the Fund intends to meet its financial obligations. Both these documents are published on Scottish Borders Council's web site and are available on request from the Council's Chief Financial Officer.

17 INVESTMENT MANAGEMENT ARRANGEMENTS

Investment Management was undertaken on behalf of the Fund during the financial year by four firms of investment managers: UBS Global Asset Management, Baillie Gifford & Co, Morgan Stanley and LGT Capital Partners. The Fund's passive currency hedging programme was provided by State Street Global Advisors.

At 31 March 2014 UBS Global Asset Management managed 38.19% of the Fund, including property, bonds, UK equities and a Global Equity Fund. The UK equity portfolio is managed entirely on a passive basis. The Global Equity, Property and Bond Funds are all actively managed. A performance target of 2% p.a. (net of fees) above benchmark has been set for active equities, 1.5% p.a. (gross of fees) for Bonds and 0.75% p.a. (net of fees) for Property. All UBS targets are assessed over rolling three year periods.

Baillie Gifford & Co. managed 29.22% of the Fund's investments at 31 March 2014. They manage UK and overseas equities on a wholly active basis. A performance target of 1% p.a. above benchmark has been set for UK equities and 2-3% above benchmark over rolling five-year periods for overseas equities. All Baillie Gifford targets are net of fees.

Morgan Stanley managed 13.43% of the Fund at 31 March 2014. The Fund has invested in shares in the Morgan Stanley Global Brands Fund, which consists of a portfolio of high quality global equities. This portfolio is actively managed and the performance target for Morgan Stanley is to outperform the MSCI World Net Index. This target is net of fees.

LGT Capital Partners managed 17.37% of the Fund at 31 March 2014. The fund has invested in shares in the LGT Crown SBC Segregated Portfolio. The performance target for LGT is to outperform LIBOR by 4% per annum net of fees.

1.82% of the Pension Fund was managed by Council staff at 31 March 2014. This is largely cash held to cover potential exposures on the passive currency hedge, to meet current operational expenses, or cash awaiting transfer to external fund managers.

The total Fund return for the year was 9.4% including the currency hedging. The hedging arrangements had a positive impact, increasing the return by 1.8%. Excluding the currency hedging, the return on the Fund was 7.6%, with a relative return over benchmark of 0.7%.

Over three years the Fund has generated an annualised return of 8.9% per annum, including the currency hedging, with a relative return over benchmark of 1.3% per annum.

18 STOCK LENDING

As at 31 March 2014 no stock had been released to a third party under a stock lending arrangement.

19 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £6.081m (2013: £4.178m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.022m (2013: £0.019m). The Council charged the Pension Fund £0.268m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

	2013	2014
	£'000	£'000
Due from Scottish Borders Council	483	31

20 MEMBERSHIP DETAILS

Under the Local Government Pension Scheme (LGPS), member contributions are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier.

Eligibility to join the scheme

Employees must have a contract of at least 3 months duration to become a member. The majority of casual employees are therefore now excluded from joining the scheme.

The following table give details of the various bodies' membership and their contribution rates.

Membership Details as at 31 March 2014	Contributors	Pensioners	Deferred Pensioners	Employer's Contribution Rate (% of Pay)
Scottish Borders Council	4,019	2,741	2,114	18.0%
Borders College	134	41	53	18.0%
Borders College Business Consultants	-	10	22	18.0%
Visit Scotland (Scottish Borders)	1	7	9	18.0%
Scottish Borders Housing Association	137	63	59	18.0%
Borders Sport and Leisure Trust	60	6	19	18.5%
Jedburgh Leisure Facilities Trust	2	-	2	18.5%
Gala Youth Project	-	1	1	18.0%
Lothian and Borders Community Justice Authority	3	1	2	18.0%
Amey Community Limited	10	2	2	17.5%
Scottish Borders Careers	-	1	3	0.0%
Heriot Watt University (formerly S.C.O.T.)	-	19	2	0.0%
Others	-	6	4	0.0%
Total	4,366	2,898	2,292	

21 MEMBERSHIP RECONCILIATION 2013/14

Membership Reconciliation as at 31 March 2014

	Contributors	Pensioners	Deferred Pensioners	Total
Number at 1 April 2013 (inc Councillors)	4,298	2,771	2,242	9,311
Adjustments (late notifications etc)	(17)	(1)	1	(17)
New Members	482	-	-	482
Transfers to Other Schemes	(142)	-	(18)	(160)
Retirement of Contributing Members	(99)	99	-	-
Transfer to Deferred Pensioners	(160)	-	160	-
Re-employed Deferred Pensioners	9	-	(9)	-
Retirement of Deferred Pensioners	-	79	(79)	-
Dependants' Pensions	-	34	-	34
Deaths	(5)	(79)	(5)	(89)
End of Entitlement	-	(5)	-	(5)
Number at 31 March 2013	4,366	2,898	2,292	9,556

22 SCHEME ARRANGEMENTS

The new look LGPS came into force from 1 April 2009. The benefits package includes:

- An accrual rate of 1/60th for membership from 1 April 2009
- Choice of improved lump sum at retirement
- Introduction of dependent partner's pension
- Increased death in service cover
- Increased flexible retirement options
- Tiered contributions

23 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.

A) Market risk

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

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

(i) Other Price Risk

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

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

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

Other price risk – sensitivity analysis

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

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	12.48
Global Pooled Equities	13.86
UK Bonds	6.66
Cash	0.02
Property	1.73
Alternatives	5.64

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 £'000	% Change	Potential change in year in the net assets available to pay benefits	
			Favourable Market Movement	Unfavourable Market Movement
			£'000	£'000
UK Equities	110,801	12.48	124,629	96,973
Global Pooled Equities	203,308	13.86	231,487	175,130
UK Bonds	52,642	6.66	56,148	49,136
Cash	11,650	0.02	11,652	11,648
Property	21,348	1.73	21,717	20,979
Alternatives	83,987	5.64	88,724	79,250
Total Assets*	483,736	9.62	530,271	437,201

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

(ii) Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

The Fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	At 31 March 2013 £'000	At 31 March 2014 £'000
Cash and cash equivalents	5,903	13,929
Fixed Interest securities	52,662	52,642
Total	58,565	66,571

Interest rate risk sensitivity analysis

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

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

Asset Type	Carrying amount as at 31 March 2014	Potential change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'000
Cash and cash equivalents	13,929	139	(139)
Fixed Interest securities	52,642	526	(526)
Total change in assets available	66,571	666	(666)

(iii) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in equities overseas that are denominated in currencies other than £UK. To help manage this risk, the Fund hedges 50% of its exposure to equities denominated in certain major foreign currencies through the operation of a passive currency overlay programme, operated by State Street.

The following table summarises the Fund's currency exposure at 31 March 2014:

Currency exposure - asset type	Asset Value at 31 March 2013	Asset value at 31 March 2014
	£'000	£'000
Overseas equities	213,044	203,308
Alternatives	39,376	83,987
Cash – Foreign currency	1,575	1,068

Currency risk – sensitivity analysis

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

Currency risk – sensitivity analysis (contd.)

Currency	Value (£'000)	% Change	Value on Increase (£'000)	Value on Decrease (£'000)
Australian Dollar	1,068	9.80	1,172	963
Brazilian Real	666	12.69	751	581
Canadian Dollar	1,549	6.04	1,642	1,455
Danish Krone	2,144	6.26	2,278	2,010
EURO*	11,882	3.15	12,256	11,508
Hong Kong Dollar	3,316	7.98	3,580	3,051
Indonesian Rupiah	325	11.05	361	289
Japanese Yen*	13,012	5.77	13,763	12,261
Norwegian Krone	1,937	8.79	2,107	1,767
South African Rand	2,969	11.31	3,305	2,633
South Korean Won	1,118	6.56	1,191	1,045
Swedish Krona	5,607	7.03	6,001	5,213
Swiss Franc	9,061	7.42	9,734	8,389
US Dollar*	233,709	4.03	243,128	224,291
Total Currency **	288,363	3.59	298,724	278,002

* denotes 50% GBP hedge

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

B) Credit risk

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

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

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2014, including current account cash, was £11.0m (31 March 2013: £2.8m). This was held with the following institutions:

	Rating	Balance at 31 March 2014 (£'000)
Money Market accounts		
Ignis	AAA	2,175
Scottish Widows	AAA	2,175
Blackrock	AAA	2,175
Prime Rate	AAA	2,175
Bank current accounts		
Bank of Scotland	A	2,279

C) Liquidity Risk

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

The Council has immediate access to its Pension Fund cash holdings, with the exception of holdings with the Royal Bank of Scotland, where money is deposited in a short term notice account.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2014, the Fund had no illiquid assets.

24 FUNDING AND VALUATION NOTE

In line with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, 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 last such valuation took place as at 31 March 2011. The next valuation will take place as at 31 March 2014 and will be conducted in the latter part of 2014.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- To ensure that employer contribution rates are as stable as possible
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period of 12 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and contributions are sufficient to meet expected future pension benefits payable.

At the 2011 actuarial valuation, the Fund was assessed as 95.7% funded (96.5% at the March 2008 valuation). This corresponded to a deficit of £17.4m (2008 valuation: £10.8m) at that time.

The common contribution rate (i.e. the rate which employers in the fund pay) is:

Period	SBC Common Pool Employers Contribution Rate	Leisure Facilities Common Pool Employers Contribution Rate
2011/12	18.0%	18.5%
2012/13 to 2014/15	18.0%	18.5%

Some Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer.

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. The principal assumptions used in the last triennial valuation (to March 2011) were:

Financial Assumptions

	March 2008		March 2011	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities/absolute return funds	7.9	4.2	6.9	3.4
Gilts	4.6	0.9	4.3	0.8
Bonds & Property	6.0	2.2	5.5	2.0
Discount Rate	7.1	3.4	6.4	2.9
Pay Increases	5.2	1.5	5.0	1.5
Price Inflation	3.7	-	3.5	-
Pension Increases	3.7	-	3.0	(0.5)

Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S1PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2011 projections, with a long term rate of 1%.

25 POST BALANCE SHEET EVENTS

There were no adjusting post balance sheet events.

GOVERNANCE COMPLIANCE STATEMENT

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles.

The key document summarising the governance arrangements for the Fund is the Governance Policy which is contained in Annex 1, and also available on the website www.scotborders.gov.uk/pensions

Principle		Full Compliance	Comments
Structure			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes	The Scheme of Administration sets out the remit of the Pension Fund Committee (PFC). (see Annex 1 Section 2.3)
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	Non-voting appointed members representing scheduled and admitted bodies and trade unions are part of the PFC. (see Annex 1 Section 3.5)
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of Sub-Groups are submitted to PFC for approval. (see Annex 1 Section 3.10)
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	Any Sub-Group established will have member(s) of the PFC as part of its membership. (see Annex 1 Section 3.10)
Committee Membership and Representation			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	Non-voting members representing scheduled and admitted bodies and trade unions are part of the PFC. The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity. (see Annex 1 Sections 3.5 & 3.7)

Principle		Full Compliance	Comments
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the PFC irrespective of voting rights are covered equally by the Training Policy. All members, following the amendment to the Scheme of Administration agreed by Council on 26 June 2013, have equal rights to receive papers and access meetings in the same way.
Selective 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	Part of Council's Code of Governance along with Member induction programme.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.
Voting			
A	The policy of individual administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This explained in Annex 1 Section 3.5.

Principle		Full Compliance	Comments
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses..
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	
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 first Annual Training Plan was agreed in September 2012 and logs of training are being maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	(See Annex 1 Section 3.8)
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits	Not applicable	No formal secondary committee/panel
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	All members of the PFC are covered by the Scheme of Administration.
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	Scheme of Administration changed by Council on 26 June 2013 to change observers to non-voting members to enable this to happen.

Principle		Full Compliance	Comments
Scope			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out the remit of the PFC (see Annex 1 Section 2.3)
Publicity			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	PFC Minutes and Public papers available via website, as are various governance and schemed policy doc Annex 1 Section 8)

ANNEX 1

GOVERNANCE POLICY

Scottish Borders Council Pension Fund

Introduction

This Statement documents the governance arrangements for the pension scheme administered by Scottish Borders Council. This version of the Governance Policy and Compliance Statement was approved by the Pension Fund Committee of Scottish Borders Council on 17 June 2014 and updated following changes to the Scheme of Administration approved by Council on the 26 June 2013.

1. Administering Authority

- 1.1 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area.
- 1.2 The Council has delegated its pension's functions to the **Pension Fund Committee**.

2. Regulatory Framework

- 2.1 The Scottish Public Pensions Agency (SPPA) is responsible for regulating the LGPS in Scotland and the Council administers the pension scheme in accordance with these regulations.
- 2.2 The Scottish Borders LGPS scheme is open to all employees of scheduled bodies except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Teachers). Employees of admitted bodies can join the scheme subject to those bodies meeting the statutory requirements and on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is attached in Appendix A.
- 2.3 The Pension Fund Committee (the Committee) is a formal committee of Scottish Borders Council. The Scheme of Administration for the Council specifies that the following functions shall be referred to the PFC:
 - i All matters relating to the Management of the Council's Pension Fund
 - ii Employer discretions under Local Government Pension Scheme (Scotland) Regulations 1998.
- 2.4 Financial affairs are conducted in compliance with the Council's Financial Regulations which have been formally adopted by the Pension Fund in 2011.
- 2.5 Funds are invested in compliance with the Council's Statement of Investment Principles.

3. Pension Fund Committee

- 3.1 The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund (the Fund).
- 3.2 Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members.
- 3.3 The members' knowledge is supplemented by professional advice from Officers of the Council, professional advisers and external experts.
- 3.4 The Committee is comprised of twelve members [TBC at Council Meeting 26 June]. The following seven members of the Council have voting rights:

Depute Leader (Finance)

Executive Member for HR and Corporate Improvement

Three members of the Administration

Two members from the Opposition

- 3.5 A further five members with no voting rights are appointed from:

A Scheduled Body

An Active Admitted Body

Each of the three recognised Trade Unions

These members do not have any voting rights but are encouraged to participate in the debate and discussion and provide input on behalf of the stakeholder groups they represent in order to inform the Elected Members in their decision making.

- 3.6 The Chairman of the Committee shall be one of the Scottish Borders Council Members and the presence of four Members of the Council constitutes a quorum.
- 3.7 The Independent Investment Consultant, the Chief Executive, Chief Financial Officer, Corporate Finance Manager, Treasury and Capital Manager and HR Shared Services Manager also attend the Committee meetings as advisers.
- 3.8 The Committee meets at least quarterly. Additional meetings are called as appropriate.
- 3.9 The Committee papers and minutes are publicly available on the Council's website, unless they have been considered as private business in terms of Schedule 7A to the Local Government (Scotland) Act 1973. Minutes of the Committee are presented to the Executive of the Council.
- 3.10 From time to time, the Committee may establish a Sub-Group to address a specific issue or need. Any such Sub-Group will be chaired by a member of the Committee and the

remaining membership of the Sub-Group will be appropriate to the purpose and may therefore include other members of the Committee. The minutes and decisions of these sub-groups will be presented to the Committee for noting and agreement.

4. Administration and Management of the Fund

4.1 Chief Financial Officer

- i The Council's Chief Financial Officer is the Officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.
 - ii He is responsible for:
 - a) the financial accounting of the Fund,
 - b) the preparation of the Pension Fund Annual Report, and
 - c) being the principal advisor on investment management to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.
- 4.2 The day-to-day management of the investment activities of the Fund is managed by the Corporate Finance Team within the Finance Service.

4.3 Head of Shared Services

- i The pension benefits policy oversight and day-to-day administration for the Fund is managed by the Human Resources Shared Services Team.

5. Professional Advisers and External Service Providers

- 5.1 Barnett Waddingham has been appointed to act as Actuary to the Fund. The services provided include advice on funding and actuarial valuations.
- 5.2 AON Hewitt is the Independent Investment Consultant employed by the Council to advise the Committee on investment strategy.
- 5.3 The Fund has appointed investment managers who have responsibility for the selection, retention and realisation of individual investments. Where appropriate, they also implement the Committee's policy in relation to corporate socially responsible investment and corporate governance.
- 5.4 J.P. Morgan is the global custodian for the Fund and is responsible for the safekeeping of the assets including transaction processing and making tax claims.

- 5.5 WM Performance Services has been appointed as the independent performance services company for the Fund. They have responsibility for measuring and reporting on the performance of individual portfolios and the overall Fund.

6. Internal and External Review

- 6.1 The annual financial statement of the Council, including the Fund, is subject to external audit. The auditors are appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for.
- 6.2 The Council's Audit Committee oversees the output of the Annual Audit process in relation to the Pension Fund.
- 6.3 The Council provides internal audit arrangements to the Fund both as a tool of management and with direct reporting to the Council's Audit Committee.

7. Risk Management

- 7.1 The Council has a corporate risk management policy which includes the maintenance and regular review of a risk register.
- 7.2 Risk awareness is embedded into the investment performance management process.

8. Access to Information

- 8.1 Committee papers and minutes are available via the Council Papers website <http://councilpapers.scotborders.gov.uk/>
- 8.2 The Fund's Annual Report and Accounts is available via the Fund website www.scotborders.gov.uk/pensions. A hard copy of the full version of this report is provided to the scheduled and active admitted bodies of the scheme and a summary of the review is provided to all Fund members.
- 8.3 This Governance Policy and Compliance Statement and all supporting statements and policies are available on the Fund website www.scotborders.gov.uk/pensions.

9. Review and Compliance with Best Practice

- 9.1 This Statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Fund.

- 9.2 The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The Governance Compliance Statement that demonstrates the Fund's status against these standards is set out in the Annual Report and Accounts for the Fund.

Appendix A

Scottish Borders Council Pension Fund

Scheduled and Admitted Bodies

Scheduled Bodies

- Borders College
- Scottish Borders Council
- Visit Scotland

Admitted Bodies

Active Admitted Bodies

- Amey Community Limited
- Borders Sport and Leisure Trust
- Jedburgh Leisure Facilities Trust
- Lothian and Borders Community Justice Authority
- Scottish Borders Housing Association

Admitted bodies with Deferred or Retired Members only

- Gala Youth Project
- BC Consultants
- Berwickshire Housing Association
- Heriot Watt (former Scottish College of Textiles)
- Project '80 Council Burnfoot
- Red Cross Housing Association
- Scottish Borders Careers

ANNEX 2

PENSION ADMINISTRATION PERFORMANCE 2013/14

In accordance with the Pension Administration Strategy, approved 13 June 2012, the following performance measures have been compared against the targets set within the said strategy document.

Employer Performance Measures

Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	482	100%
Changes notified – within 20 working days	873	100%
Retirement info – at least 20 working days before	178	100%
Early leaver notification – within 20 working days	320	100%
Death in service notification – within 10 working days	5	100%
Query responses – within 10 working days	See below	
Year-end queries – within 20 working days	See below	

The way in which information has been recorded for queries has not been sufficient to allow for the collection and comparison against targets for a full year in 2013/14. Improved recording procedures have been developed to allow for this measure to be completed going forward, however, this is only be for a partial year within the 2013/14 final accounts.

Contribution Payments

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

Scottish Borders Council

	Target Date	Date received	Target Achieved
April	30/04/2013	30/04/2013	On Time
May	31/05/2013	31/05/2013	On Time
June	30/06/2013	30/06/2013	On Time
July	31/07/2013	31/07/2013	On Time
August	30/08/2013	30/08/2013	On Time
September	30/09/2013	30/09/2013	On Time
October	31/10/2013	31/10/2013	On Time
November	30/11/2013	30/11/2013	On Time
December	23/12/2013	23/12/2013	On Time
January	24/01/2014	24/01/2014	On Time
February	28/02/2014	28/02/2014	On Time
March	31/03/2014	31/03/2014	On Time

Visit Scotland

	Target Date	Date received	Target Achieved
April	19/05/2013	03/05/2013	On Time
May	19/06/2013	04/06/2013	On Time
June	19/07/2013	05/07/2013	On Time
July	19/08/2013	09/08/2013	On Time
August	19/09/2013	05/09/2013	On Time
September	19/10/2013	07/10/2013	On Time
October	19/11/2013	05/11/2013	On Time
November	19/12/2013	17/12/2013	On Time
December	19/01/2014	02/01/2014	On Time
January	19/02/2014	31/01/2014	On Time
February	19/03/2014	04/03/2014	On Time
March	19/04/2014	28/03/2014	On Time

Borders College

	Target Date	Date received	Target Achieved
April	19/05/2013	03/05/2013	On Time
May	19/06/2013	03/06/2013	On Time
June	19/07/2013	03/07/2013	On Time
July	19/08/2013	02/08/2013	On Time
August	19/09/2013	02/09/2013	On Time
September	19/10/2013	03/10/2013	On Time
October	19/11/2013	04/11/2013	On Time
November	19/12/2013	03/12/2013	On Time
December	19/01/2014	03/01/2014	On Time
January	19/02/2014	03/02/2014	On Time
February	19/03/2014	03/03/2014	On Time
March	19/04/2014	04/04/2014	On Time

Scottish Borders Housing Association

	Target Date	Date received	Target Achieved
April	19/05/2013	17/05/2013	On Time
May	19/06/2013	18/06/2013	On Time
June	19/07/2013	23/07/2013	Late Payment
July	19/08/2013	19/08/2013	On Time
August	19/09/2013	16/09/2013	On Time
September	19/10/2013	14/10/2013	On Time
October	19/11/2013	18/11/2013	On Time
November	19/12/2013	17/12/2013	On Time
December	19/01/2014	21/01/2014	Late Payment
January	19/02/2014	17/02/2014	On Time
February	19/03/2014	17/03/2014	On Time
March	19/04/2014	23/04/2014	Late Payment

Jedburgh Leisure Facilities Trust

	Target Date	Date received	Target Achieved
April	19/05/2013	17/05/2013	On Time
May	19/06/2013	14/06/2013	On Time
June	19/07/2013	15/07/2013	On Time
July	19/08/2013	14/08/2013	On Time
August	19/09/2013	07/10/2013	Late Payment
September	19/10/2013	15/10/2013	On Time
October	19/11/2013	14/11/2013	On Time
November	19/12/2013	18/12/2013	On Time
December	19/01/2014	15/01/2014	On Time
January	19/02/2014	17/02/2014	On Time
February	19/03/2014	17/03/2014	On Time
March	19/04/2014	15/04/2014	On Time

Borders Sport and Leisure Trust

	Target Date	Date received	Target Achieved
April	19/05/2013	17/05/2013	On Time
May	19/06/2013	18/06/2013	On Time
June	19/07/2013	18/07/2013	On Time
July	19/08/2013	16/08/2013	On Time
August	19/09/2013	16/09/2013	On Time
September	19/10/2013	18/10/2013	On Time
October	19/11/2013	18/11/2013	On Time
November	19/12/2013	18/12/2013	On Time
December	19/01/2014	17/01/2014	On Time
January	19/02/2014	19/02/2014	On Time
February	19/03/2014	18/03/2014	On Time
March	19/04/2014	17/04/2014	On Time

AMEY Community Limited

	Target Date	Date received	Target Achieved
April	19/05/2013	17/05/2013	On Time
May	19/06/2013	18/06/2013	On Time
June	19/07/2013	18/07/2013	On Time
July	19/08/2013	16/08/2013	On Time
August	19/09/2013	18/09/2013	On Time
September	19/10/2013	18/10/2013	On Time
October	19/11/2013	18/11/2013	On Time
November	19/12/2013	18/12/2013	On Time
December	19/01/2014	17/01/2014	On Time
January	19/02/2014	19/02/2014	On Time
February	19/03/2014	18/03/2014	On Time
March	19/04/2014	17/04/2014	On Time

The Scheduled/Admitted Bodies who were not complying with the remittance schedules were contacted during the year and remind of their requirement to adhere to the payment schedules. This resulted in an increase in the number of remittances being received timeously. There has been a significant improvement since 2013/14 where there were 10 late payments compared with 4 this year. This continues to be monitored on a monthly basis.

Administering Authority Performance Measures

Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	96	10 days	30.21%
Estimates – Transfer Out	75	10 days	36.00%
Estimate – All Other	849	10 days	89.75%

The way in which information has been recorded for general queries and advice has been enhanced during 2013/14 to allow for a more detailed collection and comparison against targets. However, this was only implemented from September 2013 so represents a partial year, a full year will be included within the 2014/15 final accounts.

Type of Query	Volume	Target	%age Met
Admitted/Scheduled Bodies Employer Queries	23	10 days	100.00%
Advice on AVC applications	21	10 days	100.00%
Advice on Nominations and/or Death Grant	13	10 days	100.00%
Advice on Options at Retirement	57	10 days	100.00%
Annual Benefit Statement Queries	101	20 days	100.00%
Assistance with form completion e.g. retirement declaration	15	10 days	100.00%
Change of Address/Bank Details	60	10 days	100.00%
Divorce	9	10 days	100.00%
DWP requesting details of Pensioner Payments	1	10 days	100.00%
Enquiries in relation to Deceased Pensioners	28	10 days	100.00%
ER/VS general advice	33	10 days	100.00%
Flexible Retirement	22	10 days	100.00%
General advice	36	10 days	100.00%
Internal forms requesting details of Pensioner Payments	6	10 days	100.00%
Opting In to LGPS	41	10 days	100.00%
Opting Out of LGPS	23	10 days	100.00%
Pension Payment queries including tax issues	64	10 days	100.00%
Refunds Enquiry	4	10 days	100.00%
Retiral Enquiry	82	10 days	100.00%
Transfer In Enquiry	4	10 days	100.00%
Transfer Out Enquiry	12	10 days	100.00%
Total	655	10 days	100.00%

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	2 per annum	None
Benefit Statements	by end of October	by end of August 2013

Liaison meetings with all Admitted and Scheduled Bodies were not held during 2013/14. However, we did hold a meeting with Borders College to discuss Auto Enrolment during 2013/14. A schedule of meetings for the coming years will be developed to cover topics such as the LGPS (Scotland) legislative changes scheduled for implementation from 1 April 2015.

All Benefit Statements were prepared during August 2013. Statements for all Scheduled and Admitted Bodies, were issued before the end of August 2013.

Key Administration Tasks

Task	Total received
New entrants	482
Changes	873
Early leavers	320
Retirements	178
Deaths in service	5
Deaths in deferment	5
Deaths in retirement	79
New Widows(ers), Child Pensions	34
Estimates	1,020
Pension credit members	0

SCOTTISH BORDERS COUNCIL PENSION FUND

ACTUARIAL REPORT 2013/14

□ Introduction

We have been instructed by Scottish Borders Council, the Administering Authority to the Scottish Borders Council Pension Fund (“the Fund”), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (“the LGPS”) to members of the Fund as at 31 March 2014.

This report is addressed to the Administering Authority and its advisers; in particular, this report is likely to be of relevance to the Fund’s auditor.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 2008, is contracted out of the State Second Pension and currently provides benefits based on final salary and length of service on retirement.

□ Valuation Data

Data Sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Scottish Borders Council.

- The results of the valuation as at 31 March 2011 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2014.
- Estimated Fund returns based on assets used for the purpose of the IAS26 valuation as at 31 March 2013, a Fund asset statement as at 28 February 2014, and market returns (estimated where necessary) thereafter for the period to 31 March 2014.
- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

Fund Membership Statistics

The table below summarises the membership data, as at 31 March 2011.

Member Data Summary	Number	Salaries/Pensions	Average Age
		£000's	
Actives	4,371	72,855	47
Deferred pensioners	2,108	2,923	47
Pensioners	2,430	11,480	69

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2014 is estimated to be 6%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Scottish Borders Council Pension Fund as at 31 March 2014 is as follows:

Employer Asset Share - Bid Value	31 March 2014		31 March 2013	
	£000's	%	£000's	%
Equities	309,347	65%	327,540	73%
Gilts	14,278	3%	17,947	4%
Other Bonds	38,073	8%	35,895	8%
Property	19,036	4%	17,947	4%
Cash	14,278	3%	8,974	2%
Multi-Asset Fund	80,906	17%	40,382	9%
Total	475,918	100%	448,685	100%

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2014 is likely to be different from that shown due to estimation techniques.

From the information we have received from the Administering Authority, we understand that of the total Fund at 28 February 2014, 20% of equities, 100% of property, and 100% of the multi-asset fund were in managed funds, which we interpret as not having a quoted market price in an active market.

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the Administering Authority is contacted in the first instance.

Unfunded Benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Pension Fund.

3. Actuarial Methods and Assumptions

Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2014, we have rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2011, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Scheme or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

The post retirement mortality tables adopted are the S1PA tables with a multiplier of 120%; these are consistent with those used for the funding valuation as at 31 March 2011. These base tables are then projected using the CMI 2013 Model, allowing for a long term rate of improvement of 1.5% per annum. This has been updated from previous years to use a newer set of CMI projections which allow for recent improvements which then blend into a long term assumption. We have set the long term rate of 1.5% per annum rather than the previous rate of 1.0% per annum to reflect the evidence that suggests that rate of improvement is likely to be higher than previously expected.

The assumed life expectations from age 65 are;

Life Expectancy from age 65 (years)	31 March 2014	31 March 2013
Retiring today		
Males	22.5	22.1
Females	24.8	24.4
Retiring in 20 years		
Males	24.7	23.4
Females	27.1	25.9

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Active members will retire one year later than they are first able to do so without reduction;

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows:

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI increases	3.7%	-	3.4%	-	3.3%	-
CPI increases	2.9%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Salary increases	5.1%	1.4%	4.8%	1.4%	4.8%	1.5%
Pension increases	2.9%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Discount rate	4.5%	0.8%	4.5%	1.1%	4.6%	1.3%

These assumptions are set with reference to market conditions at 31 March 2014.

Our estimate of the duration of the Fund's liabilities is 21 years.

The discount rate is the annualised yield at the 21 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 21 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, we have made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so we have made no such deduction at 31 March 2014. The RPI assumption is therefore 3.7%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.9%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.4% per annum above RPI in addition to a promotional scale.

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the discount rate.

4. Results and Disclosures

The results of our calculations for the year ended 31 March 2014 are set out in Appendix 1. We estimate that the net liability as at 31 March 2014 is a liability of £237,964,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.



Roisin McGuire FFA
Actuary

Appendix 1 Balance Sheet Disclosure as at 31 March 2014

Net pension asset as at	31 Mar 2014	31 Mar 2013	31 Mar 2012
	£000's	£000's	£000's
Present value of funded obligation	713,882	616,259	565,552
Fair value of Scheme assets (bid value)	475,918	448,685	392,619
Net liability	237,964	167,574	172,933

*Present Value of Funded Obligation consists of £508,581,000 in respect of Vested Obligation and £205,301,000 in respect of Non-Vested Obligation.

Appendix 2 Asset and Benefit Obligation Reconciliation for the year to 31 March 2014

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2014 £000's	Year to 31 Mar 2013 £000's (had the revised IAS19 standard applied)	Year to 31 Mar 2013 £000's disclosed
Opening defined benefit obligation	616,259	565,552	565,552
Current service cost	18,385	16,704	16,704
Interest cost	27,439	25,723	25,723
Change in financial assumptions	48,744	19,976	combined below
Change in demographic assumptions	16,114	-	combined below
Experience loss/(gain) on defined benefit obligation	-	(10)	combined below
Total actuarial losses (gains)	separated above	separated above	19,966
Losses (gains) on curtailments	combined below	combined below	1,142
Liabilities assumed / (extinguished) on settlements	-	-	-
Estimated benefits paid net of transfers in	(17,697)	(16,979)	(16,979)
Past service cost	combined below	combined below	10
Past service costs, including curtailments	291	1,152	separated above
Contributions by Scheme participants	4,347	4,141	4,141
Unfunded pension payments	-	-	-
Closing defined benefit obligation	713,882	616,259	616,259

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to	Year to	Year to
	31 Mar 2014	31 Mar 2013	31 Mar 2013
	£000's	£000's	£000's
		(had the revised IAS19 standard applied)	disclosed
Opening fair value of Scheme assets	448,685	392,619	392,619
Expected return on scheme assets	n/a	n/a	23,424
Interest on assets	20,179	18,061	n/a
Return on assets less interest	7,860	38,290	n/a
Other actuarial gains/(losses)	-	-	n/a
Total actuarial gains/(losses)	n/a	n/a	32,640
Administration expenses	(278)	(287)	n/a
Contributions by employer including unfunded	12,822	12,840	12,840
Contributions by Scheme participants	4,347	4,141	4,141
Estimated benefits paid plus unfunded net of transfers in	(17,697)	(16,979)	(16,979)
Settlement prices received / (paid)	-	-	-
Closing fair value of Scheme assets	475,918	448,685	448,685

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ANNEX 4

GLOSSARY OF TERMS

ACTIVE MANAGEMENT

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

ASSET ALLOCATION

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

BALANCED MANAGEMENT

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

GROWTH MANAGER

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

MANDATE

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

PASSIVE MANAGEMENT

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

POOLED FUND

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

RETURN

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

RISK

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

SEGREGATED FUND

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

SPECIALIST MANAGEMENT

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

VALUE MANAGER

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

VESTED/NON VESTED OBLIGATIONS

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

PENSION FUND STRAIN

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

OPERATING SURPLUS/DEFICIT

The surplus/deficit arising from dealing with members, employers and others directly involved in the scheme.

ADDITIONAL INFORMATION

Key Documents Online

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

- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy Statement
- Statement of Investment Principles
- Actuarial Valuation Statement 2011

Fund Advisers

Actuaries:	Barnett Waddingham
Auditors:	KPMG
Bankers:	Bank of Scotland
Investment Consultancy:	Aon Hewitt
Investment Custodians:	JP Morgan
Investment Managers:	Baillie Gifford, UBS, Morgan Stanley, LGT
Additional Voluntary Contributions (AVC) Managers:	Standard Life

Contact Details

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

Graeme Wilson	Telephone 01835 – 824000	Ext 5341
	E-mail gwilson@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.scotborders.gov.uk/pensions

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

Lynn Mirley	Telephone 01835 – 825016
Corporate Finance Manager	E-mail lmirley@scotborders.gov.uk

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of Scottish Borders Council Pension Fund ("the Fund") for the year ended 31 March 2014 on pages 15 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 ("the 2013-14 Code").

This report is made solely to the members of Scottish Borders Council and the Accounts Commission for Scotland, in accordance with Part VII of the Local Government (Scotland) Act 1973. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Scottish Borders Council and the Accounts Commission for Scotland, for this report, or the opinions we have formed.

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 12, the Chief Financial Officer of Scottish Borders Council is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2014, and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other matter prescribed by the Local Government (Scotland) Act 1973

In our opinion the information given in the Foreword by the Chief Financial Officer of Scottish Borders Council for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Local Government (Scotland) Act 1973 requires us to report to you if, in our opinion:

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

David Watt
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ