



ANNUAL REPORT AND ACCOUNTS
SCOTTISH BORDERS COUNCIL PENSION FUND
FOR THE YEAR TO 31 MARCH 2012

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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 2012.

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 2011/12 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 2012. These have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ("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 2012 was £393 million (£379m at 31 March 2011).

The Increase in the Value of the Fund has been achieved mainly through realised gains achieved on the sale of investments and an increased level of investment income.

An Operational and Investment Income Surplus of £8.0 million was generated on the activities of the fund (compared to £11.1m for year ended 31 March 2011).

Performance of the Fund on a three year rolling average basis has been 17.5% p.a., giving a relative return above benchmark of 1.6%.

Fund membership increased by 153 to 9,005.

Employers contributed £14.5 million to the Fund (£14.9m to 31 March 2011).

Employees contributed £4.6 million (£4.6m to 31 March 2011).

Pension and other benefits paid out were £18.0 million (£14.3m to 31 March 2011).

Net Transfer values paid into the Fund because staff changed employers were £1.2 million (£0.9m to 31 March 2011).

Highlights for the Year

Investment Returns

Despite the prevailing economic climate, the sovereign debt crises affecting the “Eurozone”, and continued volatility in investment markets during the year, the value of the Fund has grown to £393m at 31 March 2012. The overall performance of the Fund has been 17.5% on a 3 year rolling average basis, outperforming the benchmark by 1.6%.

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. In furtherance of this objective the fund has sought to procure two new fund managers to supplement the work of our established fund managers UBS and Baillie Gifford. Contracts have been signed with Morgan Stanley to manage the Global High Alpha Mandate and the procurement of a further supplier to manage the Multi Asset Mandate is nearing completion at the time of writing. During the early part of 2012/13 these new mandates will begin to actively manage the Fund's investments and I hope to be able to demonstrate the benefits of these changes in our next annual report.

Improved Governance

During the year, the Fund developed an approved Risk Register and has implemented improvements to governance arrangements in line with best practice guidance. These changes included the separation of banking arrangements from those of the Council and the development of a Pensions Administration Strategy. The work to implement the training framework for elected members and officers recommended in the 2010/11 audit is progressing and will be completed by September 2012.

Actuarial Valuation

The detailed triennial actuarial valuation undertaken by the Fund actuary Barnett Waddingham was completed during 2011/12 and resulted in a minor increase in the long term funding deficit from 96.5% (at 31 March 2008) to 95.7% (at 31 March 2011). This means that the Fund's assets at 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 three year valuation reflected increased mortality assumptions and lower than previously assumed level of investment returns in the 3 year period to March 2011. These factors were offset by the move from RPI to CPI as the basis for future pension increases and an increase in the State Pension Age by one year to 66. This change will be effective from 2020. The net result of these changes was that the employers' contribution rate for the period to 31 March 2014 was maintained at 18%.

Future Developments

Hutton

The implementation of the proposals of the Independent Public Sector Pension Commission (the Hutton Review) reported in March 2011 with its key recommendation being the introduction of a career average earnings pension scheme (CARE). The aim of Lord Hutton was to strike an appropriate balance between those working for the public sector and the tax payer ensuring access to good pensions for staff while also improving control over future costs. The Hutton Review has been subject to much public debate and consultation, especially in England and Wales. Discussions on how this will be taken forward for the Scottish LGPS Funds have started but no firm proposals have been agreed at this stage and therefore it is likely that this debate will become the focus of much attention for the Fund over the next few years as these become clearer.

Pensions Admin Strategy Monitoring

2012/13 will see the implementation of the monitoring and reporting around the new Pensions Administration Strategy and incorporation of this into the 2012/13 Annual Report.

Auto Enrolment

Auto-enrolment of employees will be implemented by the Fund during 2013/14 and planning for these changes will be ongoing for both the Fund administrators and the employer bodies who participate in it.

Development of the Pensions Committee

Following the May 2012 Election, the Pension Fund Sub-Committee will contain a substantially new membership and the focus for 2012/13 will be to provide support and training to enable Councillors and Lay Members charged with the governance of the Fund to execute their role as a quasi-trustee effectively. This will include the implementation of a training, knowledge and skills framework for the Fund by September 2012.

Investment Monitoring

In relation to investment activities the focus will be in delivering the transition of funds to the new fund managers, continuing to monitor performance effectively and implementing the decision to procure an active currency manager.

Acknowledgement

I am confident that we have a highly committed organisation and that together Members, staff and advisors have the skills to manage the Scottish Borders Council Pension Fund effectively and address future challenges. 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.

David Robertson CPFA
Chief Financial Officer

24 September 2012

REVIEW OF THE YEAR

Fund Performance

The financial year was one dominated by volatility in global investment markets, due in large part to the escalation of the Eurozone's sovereign debt crisis and the seeming inability of policymakers to find a credible long-term solution to this problem. Resultant concerns led to a fall in equity markets that dragged the value of the Fund down to £335m* by the end of September 2011, though improved investor sentiment and rising risk appetite in the last quarter to 31 March 2012, attributable to a perception that pressures affecting some of the larger Eurozone members (Italy and Spain, in particular) and their banks had eased, meant that the overall value of the fund rallied to a value of £393m as at 31 March 2012 (a 3.7% rise over the Fund's value at 31 March 2011).

Of the £14.1m increase in the value of the Fund, £8.9m was realised through sales of investments and there was a realised net loss of £1.0m on the passive currency hedge. The surplus of contributions receivable over pensions payable was £1.9m (2011: £5.8m surplus), the main cause of the drop being a significant level of lump sum payments made in respect of staff retirements during the year. 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 7.

(* 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 2012. 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 only change in strategy implemented during the year was a slight alteration to the Property Mandate in September 2011, with the aim of reducing the number of funds managed under the mandate down to 3 – 6 funds within the next three years.

The following table indicates the 31 March 2012 position in relation to asset allocation versus the revised benchmark which was agreed as part of the new Investment Strategy:

Asset Class	Asset Allocation at 31/3/12 %	Revised Benchmark %
Equities	78	70
Gilts & Bonds	16	15
Alternative Assets	0	10
Property	5	5
Cash	1	0
Total	100	100

The main reason for the difference in the asset allocation at 31 March 2012 is that the proposed new alternative asset mandate has not yet been implemented.

During 2011/12 work has continued with the implementation and the ongoing review of investment activities. The procurement process for two new fund managers has made substantial progress with contracts awarded to Morgan Stanley for an additional global equity mandate and the contract with the supplier for a multi asset mandate currently being finalised. The funding transfer into these new mandates will happen in the first half of 2012/13. In addition the Fund, in conjunction with its Investment Consultant, has been reviewing the approach to currency hedging and has taken the decision to instigate the procurement of services for a more active approach to currency management for the Fund.

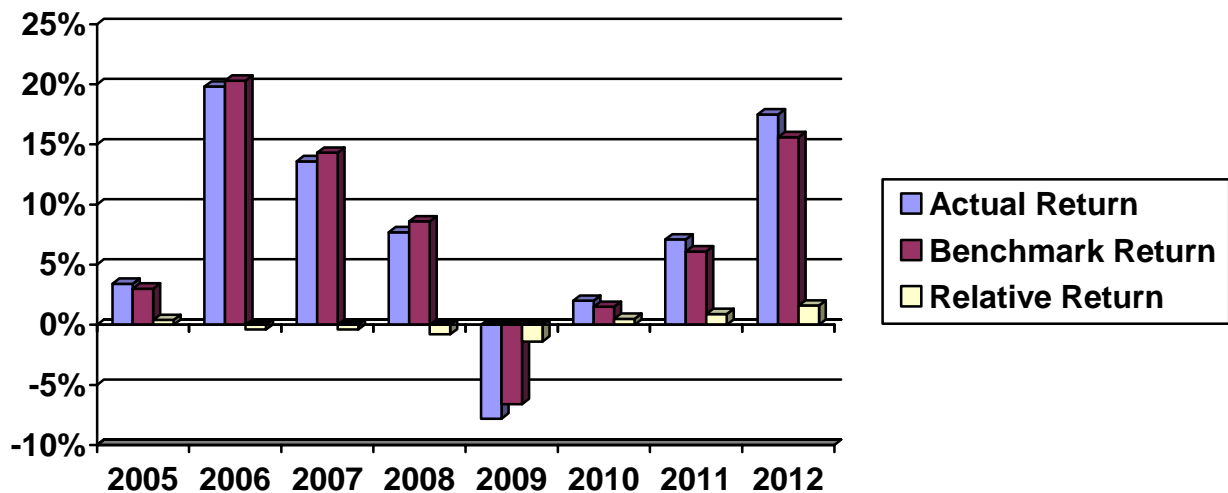
Following the completion of the latest triennial actuarial valuation during 2011/12 the Fund will undertake a review of the Funding Strategy Statement and Statement of Investment Principles. However, it is anticipated that this will not result in significant changes to these documents.

REVIEW OF THE YEAR

Investment Performance

During 2011/12, the Council employed two investment managers, Baillie Gifford and UBS Global Asset Management. Normally about 1-2% of the Fund is looked after internally at any one time – this is largely cash awaiting transfer to the external managers and to cover potential exposures on the passive currency hedge.

Annualised 3 year returns ending 31 March



The overall fund return over 3 years was 17.5% versus the benchmark of 15.6% including the impact of the passive currency hedge.

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

Return on Investment	1 year rolling Return			3 year rolling return		
	SBC %	Bench ¹ %	LA ² %	SBC %	Bench ¹ %	LA ² %
Total Fund inc Hedging	3.7	3.6	2.6	17.5	15.6	14.5
Total Fund ex Hedging	3.6	3.6	n/a	18.1	16.5	n/a
Total Equities	1.7	0.8	-0.2	20.3	17.8	18.0
UK Equities	3.3	1.4	2	20.6	18.8	19.4
Total Bonds	13.9	15.8	12.8	14.3	10.7	11.2
UK Government Bonds	23.0	22.5	16.1	9.6	9.4	8.5
UK Corporate Bonds	5.0	8.8	8.1	17.0	11.7	13.4
Property	5.5	5.7	5.9	8.0	8.8	8.5
Cash	-0.5	n/a	0.6	-1.6	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 2012

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 Fund's target was to exceed the sum of these indices by 1% over rolling 3-year periods.

The top 20 direct equity holdings at 31 March 2012 were

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Apple Inc	3.9	Richemont	2.2
Microsoft Corp	2.9	BG Group	2.2
Nestle SA	2.9	Roche	2.1
Wolseley Plc	2.9	Pepsico	2.1
Prudential	2.7	Wells Fargo	2.0
Svenska Handelsbanken	2.6	Colgate-Palmolive	2.0
Amazon	2.3	Imperial Tobacco Group	2.0
Naspers	2.3	BP	2.0
British American Tobacco	2.2	Brambles Ltd	2.0
Atlas Copco	2.2	General Electric	1.9

Fund Update

Membership Details

Member Status	As at 31/3/2010	As at 31/3/2011	As at 31/3/2012
Contributing	4,466	4,415	4,230
Deferred	2,004	2,061	2,164
Pensioners/Dependants	2,242	2,376	2,611
Total	8,712	8,852	9,005

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 22).

Pension Increases

Pensions which are in payment and deferment are increased each April in accordance with the Pension (Increase) Act 1971. Since April 2011, this increase has been linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

Pensions Administration Strategy

The Pension Fund Sub-Committee (PFSC) 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 Sub-Committee and reported in the Annual Report. The first formal reporting of this performance will be in the Annual Report of 2012/13.

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 2012

Actuarial Valuation

Annex 1 contains the formal Actuarial Statement for 2011/12 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 is about identifying 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 is 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 is 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.

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 2012, and of its income and expenditure for the year ended 31 March 2012.

David Robertson CPFA
Chief Financial Officer
24 September 2012

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, from 19 September 2011. 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 2012.
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) Development and implementation of a training and development framework in accordance with the CIPFA Knowledge and Skills Framework for members and officers involved in the management of the Pension Fund.

Signed

**David Robertson CPFA
Chief Financial Officer
24 September 2012**

STATEMENT OF ACCOUNTS 2011/12

FUND ACCOUNT

2010/11 £'000		2011/12 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme		
19,525	Contributions Receivable	19,056	6,14
1,727	Transfers In	1,639	7
21,252		20,695	
(14,301)	Benefits Payable	(18,014)	8,14
(898)	Payments to and on account of leavers	(533)	9
(286)	Administration expenses	(287)	
(15,485)		(18,834)	
5,767	Net Additions/(Withdrawals) from dealings with members	1,861	
	Return on Investments		
7,025	Investment Income	7,650	10
29,389	Profits and losses on disposal of investments and changes in the market value of investments	6,062	11
(458)	Taxes on Income	(281)	
(1,145)	Investment Management Expenses	(1,227)	
34,811	Net Return on Investments	12,204	
40,578	Net increase/(decrease) in the Fund during the year	14,065	
338,761	Opening Net Assets of the Scheme	379,339	
379,339	Closing Net Assets of the Scheme	393,404	

NET ASSETS STATEMENT as at 31 March 2012

2011 £'000		2012 £'000	Notes
	Investment Assets		
24,708	Fixed Interest - Public Sector	26,724	} 12,13
2,052	Fixed Interest – Other	1,920	
244,826	Equities	248,108	
-	Index Linked – Public Sector	316	
	Managed Funds		
17,606	Property	18,684	
49,233	Life (Equity)	50,336	
27,092	Bonds	32,046	
2,224	Open Ended Investment Contracts	2,522	
277	Derivatives – Forward Foreign Exchange	1,002	
8,357	Cash Deposits	9,943	
376,375		391,601	
1,052	Other Investment Balances	1,387	
	Current Assets & Liabilities		
653	Cash Balances	896	
133	Contributions due from Employers	203	
2,152	Other Current Assets	221	
(1,026)	Other Current Liabilities	(904)	
1,912		416	
379,339	Net Assets	393,404	

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 1.

The unaudited accounts were issued on 30 June 2012 and the final audited accounts were authorised for issue on 24 September 2012.

David Robertson CPFA
Chief Financial Officer
24 September 2012

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 2011-12 ('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 1.

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

Overseas investments and cash are stated in sterling using exchange rates ruling at the financial year end.

Investment Income

Interest is included in the accounts on an accrual basis. Dividends are accounted for when the price of the stock is quoted on an ex-dividend basis.

Administration Expenses

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 2012 was £0.791m (2010/11 £0.809m). During the year contributions of £0.065m were made. 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 £565.55m (2011: £464.62m). 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 1. 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

Employers £'000	2010/11		2010/11	Employers £'000	2011/12	
	Members £'000	Total £'000			Members £'000	Total £'000
13,265	4,553	17,818	Normal	13,133	4,506	17,639
1,623	-	1,623	Special/Pension Fund Strain	1,364	-	1,364
-	84	84	Additional Voluntary	-	53	53
14,888	4,637	19,525	Total	14,497	4,559	19,056

7 TRANSFERS IN

There were no group transfers in to the scheme during 2011/12 or 2010/11 and the total of £1.639m (2010/11: £1.727m) represents the total of transfer values in respect of individual members joining the scheme.

8 BENEFITS PAYABLE

2010/11 £'000		2011/12 £'000
10,639	Pension Payments	12,026
3,662	Lump Sums/Death Benefits	5,988
14,301		18,014

9 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2010/11 £'000		2011/12 £'000
47	Contributions Returned	72
851	Individual Transfers to other Schemes	461
898		533

10 INVESTMENT INCOME

2010/11 £'000		2011/12 £'000
(1,064)	Income from Fixed Interest Securities	(1,118)
(5,616)	Dividends from Equities	(6,068)
(321)	Income from Pooled Investment Vehicles	(410)
(24)	Interest on Cash Deposits	(54)
(7,025)		(7,650)

11 CHANGE IN THE MARKET VALUE OF INVESTMENTS

2010/11 £'000		2011/12 £'000
(19,293)	Realised	(7,930)
(10,096)	Unrealised	1,868
(29,389)	Total	(6,062)

12 MARKET VALUE OF THE SCHEME'S INVESTMENT ASSETS

As at 31 March 2012 the market value of the assets under management, broken down by manager and mandate was

31 March 2011		Manager	Portfolio/Mandate	31 March 2012	
£'000	%			£'000	%
53,898	14.32	UBS	Bonds	61,332	15.66
49,233	13.08	UBS	UK Equities - Passive	50,336	12.85
38,438	10.22	Baillie Gifford	UK Equities	40,486	10.34
115,559	30.70	Baillie Gifford	Global Equities	117,658	30.05
95,972	25.50	UBS	Global Equities	95,819	24.47
17,929	4.76	UBS	Property	18,698	4.77
277	0.07	JP Morgan	Derivative – Passive Currency Hedge	1,002	0.26
5,069	1.35	Internal	Internal	6,270	1.60
376,375	100			391,601	100

13 ANALYSIS OF INVESTMENT ASSETS

2010/11				2011/12		
UK	Overseas	Total		UK	Overseas	Total
£'000	£'000	£'000		£'000	£'000	£'000
			Investment Assets			
24,708		24,708	Fixed Interest – Public Sector	26,724		26,724
1,753	299	2,052	Fixed Interest – Other	1,631	289	1,920
56,066	188,760	244,826	Equities	58,358	189,750	248,108
-	-	-	Index Linked – UK	316		316
			Managed Funds			
17,606		17,606	Property	18,684		18,684
49,233		49,233	Life – Equity	50,336		50,336
27,092		27,092	Bonds	32,046		32,046
2,224		2,224	Open Ended Investment Contracts	2,522		2,522
277		277	Derivative – Passive Currency Hedge	1,002		1,002
8,357		8,357	Cash Deposits	9,943		9,943
187,316	189,059	376,375		201,562	190,039	391,601

As at 31 March 2012 assets valued at £380.63m were quoted on the Stock Exchange (31 March 2011: £367.74m). During 2011/12, sales of investments totalled £90.44m and purchases totalled £96.95m. Transaction costs are included in the cost of purchases and sales proceeds.

The Council has in place a passive currency hedging programme, using forward foreign exchange contracts, which hedges 50% of the currency exposure on the Fund's overseas equity investments. All contracts are traded on an over the counter basis. The forward currency contracts outstanding at 31 March 2012 were hedging a foreign currency exposure value of £94.914m and had a market value of a gain of £1.002m. These contracts had a maturity date of 14 June 2012.

The following value of investments exceed 5% of the total value of the net assets of the Pension Fund at 31 March 2012. Each of the investments comprises units in a managed fund.

	Total £'000
UBS Life UK Equity Tracker Fund 'A' Units	50,336
UBS Corporate Bond UK Plus Fund	32,046

Investment Transactions

	Opening Market Value	Purchases & Derivative Payments	Sales Proceeds & Derivative Receipts	Other Movements	Closing Market Value
	£'000	£'000	£'000	£'000	£'000
Investment Assets					
Fixed Interest – Public Sector	24,708	2,199	(5,088)	4,905	26,724
Fixed Interest – Other	2,052	1,136	(1,176)	(92)	1,920
Equities	244,826	88,888	(84,042)	(1,564)	248,108
Index Linked - UK	-	452	(135)	(1)	316
Managed Funds					
Property	17,606	720	-	358	18,684
Life – Equity	49,233	-	-	1,103	50,336
Bonds	27,092	3,500	-	1,454	32,046
Open Ended Investment Contracts	2,224	59	-	239	2,522
Derivative – Passive Currency Hedge	277	2,907	(1,945)	(237)	1,002
	368,018	99,861	(92,386)	6,165	381,658

14 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

	2011/12	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	17,410	17,473
Scheduled Bodies	166	541
Admitted Bodies	438	1,042
Total	18,014	19,056

15 AUDIT REMUNERATION

In 2011/12 the agreed audit fee for the year was £23,000.

16 STATEMENT OF INVESTMENT PRINCIPLES AND FUNDING STRATEGY STATEMENT

The Council approved its current Statement of Investment Principles on 23 June 2010. 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 same date the Council approved its first Funding Strategy Statement after consultation with all employers with an interest in the Fund. The Statement defines how the Fund intends to meet its financial obligations. Both these documents are published on the Council's web site and are available on request from the Council's Chief Financial Officer.

Following the completion of the triennial actuarial valuation the Fund will review these two documents during 2012/13.

17 INVESTMENT MANAGEMENT ARRANGEMENTS

Investment Management was undertaken on behalf of the Council for the financial year by two firms of investment managers, UBS Global Asset Management and Baillie Gifford & Co. The Council's passive currency hedging programme is managed by JP Morgan.

At 31 March 2012 UBS Global Asset Management managed 57.75% 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. above benchmark has been set for active equities, 1.3% p.a. for Bonds and 0.75% p.a. for Property. All UBS targets are assessed over rolling three year periods and are net of fees.

Baillie Gifford & Co. managed 40.39% of the Fund's investments at 31 March 2012. 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.

1.6% of the Pension Fund was managed by Council staff at 31 March 2012, which largely consisted of cash awaiting transfer to the new investment managers. The Fund is currently undertaking a procurement exercise to appoint a third global equity manager and a new multi-asset manager. There have been delays in making the appointment and transition arrangements however these have been resolved and implementation is expected to be completed by July 2012.

The total Fund return for the year was 3.7% including the currency hedging. The hedging arrangements had a positive impact, increasing the return by 0.1%. Excluding the currency hedging, the return on the Fund was 3.6% which was in line with the benchmark return.

Over three years the Fund has generated an annualised return of 17.5% per annum, including the currency hedging, which outperformed the benchmark by 1.6% per annum.

18 STOCK LENDING

As at 31 March 2012 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 £5.449m (2011: £3.228m) of cash administered by Scottish Borders Council within separate banking arrangements, which earned interest of £0.028m (2011: £0.011m). In addition the Council charged the Pension Fund £0.265m 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:

	2011	2012
	£'000	£'000
Due from Scottish Borders Council	799	134

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 2012	Contributors	Pensioners	Deferred Pensioners	Employer's Contribution Rate (% of Pay)
Scottish Borders Council	3,911	2,479	2,004	18.0%
Borders College	114	44	73	18.0%
Visit Scotland (Scottish Borders)	1	6	10	18.0%
Scottish Borders Housing Association	138	50	51	18.0%
Borders Sport and Leisure Trust	49	3	15	18.5%
Jedburgh Leisure Facilities Trust	3	0	1	18.5%
Gala Youth Project	0	0	2	0.0%
Lothian and Borders Community Justice Authority	3	1	3	18.0%
Amey Community Limited	11	23	2	17.5%
Scottish Borders Careers	0	1	1	18.0%
Heriot Watt University (formerly S.C.O.T.)	0	1	2	0%
Others	0	3	0	0%
Total	4,230	2,611	2,164	

21 MEMBERSHIP RECONCILIATION 2011/12

Membership Reconciliation as at 31 March 2012

	Contributors	Pensioners	Deferred Pensioners	Total
Number at 1 April 2011 (inc Councillors)	4,415	2,376	2,061	8,852
Adjustments (late notifications etc)	(13)	1	(1)	(13)
New Members	322	0	(10)	312
Transfers to Other Schemes	(40)	0	(17)	(57)
Refunds of Contributions	(54)	0	0	(54)
Retirement of Contributing Members	(221)	221	0	0
Transfer to Deferred Pensioners	(191)	0	191	0
Re-employed Deferred Pensioners	16	0	0	16
Retirement of Deferred Pensioners	0	57	(57)	0
Dependants' Pensions	0	31	0	31
Deaths	(4)	(70)	(3)	(77)
Commutation (trivial pensions)	0	0	0	0
Ill Health Grant	0	(5)	0	(5)
End of Entitlement	0	0	0	0
Number at 31 March 2012	4,230	2,611	2,164	9,005

22 SCHEME ARRANGEMENTS

The new look LGPS came into force from 1 April 2009. It remains a final salary scheme but there are a number of changes to the benefits package including:

- A change in the accrual rate from 1/80th pension plus 3/80th lump sum to an improved 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 sub 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), the Council has determined that the following movements in market price risk are reasonably possible for the reporting period.

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	14.4
Overseas Equities	14.7
Total Bonds	6.7
Cash	0.0
Property	4.7

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:

			Potential change in year in the net assets available to pay benefits	
Asset Type	Value	% Change	Favourable Market Movement	Unfavourable Market Movement
	£'000		£'000	£'000
UK Equities	111,215	14.4%	127,274	95,156
Overseas Equities	189,750	14.7%	217,700	161,800
Total Bonds	61,006	6.7%	65,081	56,931
Cash	9,943	0.0%	9,943	9,943
Property	18,684	4.7%	19,560	17,808
Total Assets	390,598		439,558	341,638

(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 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	At 31 March 2012	At 31 March 2011
	£'000	£'000
Cash and cash equivalents	9,943	8,357
Fixed Interest securities	61,006	53,852
Total	70,949	62,209

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 2012	Potential change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'000
Cash and cash equivalents	9,943	99	(99)
Fixed Interest securities	61,006	610	(610)
Total change in assets available	69,245	692	(692)

(iii) Currency risk

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

The following table summarises the Fund's currency exposure at 31 March 2012:

Currency exposure - asset type	Asset Value at 31 March 2011	Asset value at 31 March 2012
	£'000	£'000
Overseas quoted equities	188,760	189,750
Overseas bonds	299	289

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	3,137	10.5%	3,466	2,808
Brazilian Real	2,906	12.8%	3,279	2,533
Canadian Dollar	4,394	9.6%	4,817	3,971
Danish Krone	2,379	8.3%	2,577	2,182
Egyptian Pound	476	9.3%	521	432
EURO*	24,077	4.2%	25,084	23,071
Hong Kong Dollar	5,996	9.6%	6,571	5,421
Indonesian Rupiah	559	9.0%	610	509
Japanese Yen*	18,522	6.6%	19,753	17,291
Norwegian Krone	4,573	10.5%	5,054	4,092
Singapore Dollar	1,100	7.5%	1,183	1,018
South African Rand	3,397	13.6%	3,858	2,935
South Korean Won	3,193	10.3%	3,521	2,865
Swedish Krona	5,781	10.2%	6,372	5,190
Swiss Franc	13,735	10.2%	15,142	12,327
Turkish Lira	150	9.7%	164	135
US Dollar*	95,664	4.9%	100,142	90,830
Total	190,039	6.5%	202,114	177,610

* denotes 50% GBP hedge

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 2012, including current account cash, was £7.1m. (31 March 2011: £5.6m). This was held with the following institutions:

	Rating	Balance at 31 March 2012 (£'000)
Bank deposit accounts		
Barclays Bank	A	2,500
Royal Bank of Scotland	A	2,001
JP Morgan	A+	1,703
Bank current accounts		
Bank of Scotland	A	896

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 2012, 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.

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 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 Statement (GPS) which is contained in Annex 2, 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 Sub-Committee (PFSC). (see Annex 2 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	Observers representing scheduled and admitted bodies and trade unions are invited to attend the PFSC as observers. (see Annex 2 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 PFSC for approval. (see Annex 2 Section 3.9)
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 PFSC as part of its membership. (see Annex 2 Section 3.9)
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	Observers representing scheduled and admitted bodies and trade unions are invited to attend the PFSC. The Independent Investment Consultant and key Finance Officers also attend in an advisory capacity. (see Annex 2 Sections 3.5 & 3.6)

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.	Partially	<p>Observers are provided with the papers on arrival at the meeting due to the number of private reports provided. The Fund will investigate whether it is possible to amend the process to allow them to see advance copies of the reports. In relation to training, once the new framework is in place they will be incorporated into it.</p> <p>Observers have non-voting rights but have the ability to ask questions and contribute to the debate at the meeting.</p>
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 administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This explained in Annex 2 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.	Partially	The Members Expenses are managed under the Council's policies. Once the Training Framework is in place this will also make it clear as to how this type of expenditure will be dealt with. There are resources within the Fund's revenue provisions to address these costs.
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.	Not applicable	Will ensure that this is incorporated into the Training Framework.
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Not compliant	When the Training Framework is developed a key part of this will be the development of annual training plans and logs.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	(See Annex 2 Section 3.7)
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	Observers are included in PFSC.
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	Partially	Refer to Annex 2 Section 3.8 however the Fund will investigate opportunities to provide the other information to the Observers of other Sub-Committee as part of the current revision of the Council's Committee structures.

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 Pension Fund Sub-Committee (PFSC). (see Annex 2 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	PFSC Minutes and Public papers available via website, as are various governance and schemed policy documents. (See Annex 2 Section 8)

ANNEX 1

SCOTTISH BORDERS COUNCIL PENSION FUND ACTUARIAL STATEMENT FOR 2011/12

Barnett Waddingham
Public Sector Consulting

1. Introduction

We have been instructed by Scottish Borders Council, the Administering Authority to the Scottish Borders Council Pension Fund (“the Fund”), to provide pension disclosures in respect of pension benefits provided by the Local Government Pension Scheme (“the LGPS”) to members of Scottish Borders Council Pension Fund (“the Fund”) as at 31 March 2012.

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 have been prepared in accordance with 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, as amended. It is contracted out of the State Second Pension.

2. Valuation Data

Data Sources

In completing our calculations for IAS26 purposes we have used the following items of data, which we received from Scottish Borders Council:

The results of the funding 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 2012;

Estimated whole fund returns for the period to 31 March 2012 based on assets used for the purpose of the funding valuation as at 31 March 2011, actual fund returns for the period to 31 March 2012 and then market returns (estimated where necessary) for the balance of the period (if necessary) to 31 March 2012;

Details of any new early retirements for the period to 31 March 2012 that have been paid out on an unreduced basis, which are not anticipated in the normal employer 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, especially in the context of the roll-forward approach we have taken (as described in the next section). Further, we are not aware of any material changes or events since we received the data.

Employer Membership Statistics

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

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
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 2012 is estimated to be 3%. This is based on the Fund value used at the funding valuation as at 31 March 2011 and the estimated Fund value used at this accounting date. 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 2012 is as follows:

Employer Asset Share - Bid Value	31 March 2012		31 March 2011	
	£000's	%	£000's	%
Equities	298,390	76%	286,546	77%
Gilts	27,483	7%	26,050	7%
Other Bonds	35,336	9%	29,771	8%
Property	19,631	5%	18,607	5%
Cash	11,779	3%	11,164	3%
Total	392,619	100%	372,138	100%

The final asset allocation of the Fund assets as at 31 March 2012 may be different from that shown due to estimation techniques.

Unfunded Benefits

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

3. Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Employer's liabilities as at 31 March 2012, we have rolled forward the value of the Employer's liabilities calculated for the funding valuation as 31 March 2011 allowing for the different financial assumptions required under 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 Fund 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 2012 without completing a full valuation. However we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2012 should not introduce any material distortions in the results provided that the actual experience of the Employer and 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 no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2011. The post retirement mortality tables adopted were the S1PA tables, making allowance for future improvement factors in line with the CMI 2011 projections, with a long term rate of 1%.

The assumed life expectations from age 65 are:

Life Expectancy from age 65 (years)	31 March 2012	31 March 2011
Retiring today		
Males	22.0	18.6
Females	24.3	21.5
Retiring in 20 years		
Males	23.4	19.5
Females	25.8	22.5

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 2012		31 March 2011		31 March 2010	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.3%	-	3.5%	-	3.9%	-
CPI increases	2.5%	-0.8%	2.7%	-0.8%	n/a	
Salary Increases	4.8%	1.5%	5.0%	1.5%	5.4%	1.5%
Pension Increases	2.5%	-0.8%	2.7%	-0.8%	3.9%	-
Discount Rate	4.6%	1.3%	5.5%	1.9%	5.5%	1.5%

These assumptions are set with reference to market conditions at 31 March 2012. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of IAS19. 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. This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.3%. 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. 2.5%.

Salary increases are then assumed to be 1.5% above RPI in addition to a promotional scale. However, in anticipation of Government policy we have completed calculations assuming pay increases will only be half the long term average assumption for the period until 31 March 2013.

4. Results and Disclosures

The results of our calculations for the year ended 31 March 2012 are set out in Appendix 1. We estimate that the net liability as at 31 March 2012 is a liability of £172,933,000.

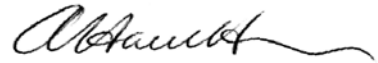
In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures in this report are presented only for the purposes of IAS 26. 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.



**Graeme Muir FFA
Partner**



**Alison Hamilton FFA
Partner**

Appendix 1. Balance Sheet Disclosure as at 31 March 2012

Net Pension Asset as at	31 Mar 2012	31 Mar 2011	31 Mar 2010
Present Value of Funded Obligation	565,552	464,621	509,292
Fair Value of Scheme Assets (bid value)	392,619	372,138	343,943
Net Liability	172,933	92,483	165,348

*Present Value of Funded Obligation consists of £457,390,000 in respect of Vested Obligation and £108,162,000 in respect of Non-Vested Obligation.

Appendix 2. Asset and Benefit Obligation Reconciliation for the Year to 31 March 2012

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 March 2012 £000's	Year to 31 March 2011 £000's
Opening Defined Benefit Obligation	464,621	509,292
Service cost	14,696	19,719
Interest cost	25,835	28,293
Actuarial losses (gains)	71,117	(45,827)
Losses (gains) on curtailments	1,883	486
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Estimated benefits paid net of transfers in	(17,423)	(13,954)
Past service cost	265	(38,018)
Contributions by Scheme participants	4,558	4,630
Unfunded pension payments	-	-
Closing Defined Benefit Obligation	565,552	464,621

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to 31 March 2012 £000's	Year to 31 March 2011 £000's
Opening fair value of Scheme assets	372,138	343,943
Expected return on Scheme assets	26,751	24,983
Actuarial gains (losses)	(7,913)	(2,291)
Contributions by employer including unfunded	14,508	14,827
Contributions by Scheme participants	4,558	4,630
Assets acquired in a business combination	-	-
Estimated benefits paid net of transfers in and including unfunded	(17,423)	(13,954)
Receipt / (Payment) of bulk transfer value	-	-
Fair value of Scheme assets at end of period	392,619	372,138

Reconciliation of opening & closing surplus	Year to 31 March 2012 £000's	Year to 31 March 2011 £000's
Surplus (Deficit) at beginning of the year	(92,483)	(165,349)
Current Service Cost	(14,696)	(19,719)
Employer Contributions	14,508	14,827
Unfunded pension payments	-	-
Past Service Costs	(265)	38,018
Other Finance Income	916	(3,310)
Settlements and Curtailments	(1,883)	(486)
Actuarial gains (losses)	(79,030)	43,536
Surplus (Deficit) at end of the year	(172,933)	(92,483)

ANNEX 2

GOVERNANCE POLICY STATEMENT

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 Sub-Committee of Scottish Borders Council on 15 September 2011 and updated under delegated authority in June 2012 following changes to the Scheme of Administration.

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 Sub-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 Sub-Committee (the Sub-Committee) is a formal sub-committee of Scottish Borders Council's Executive. The Scheme of Administration for the Council specifies that the following functions shall be referred to the PFSC:
 - i All matters relating to the Management of the Council's Pension Fund
 - ii Employer discretions under Local Government Pension Scheme (Scotland) Regulations 1998¹
- 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.

¹ These functions are referred to the Sub-Committee for consideration and recommendation only and must receive approval of the Executive

3. Pension Fund Sub-Committee

- 3.1 The members of the Sub-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 Sub-Committee is comprised of seven members of the Council:
 - Depute Leader (Finance)
 - Executive Member for HR and Corporate Improvement
 - One other Member of Executive

 - Two members of the Administration

 - Two members from the Opposition
- 3.5 In addition, Trade Unions, Scheduled and Active Admitted Bodies are invited to send representatives as observers. These observers do not have voting rights and are present to observe the debate and discussion and to provide input on behalf of the stakeholder groups they represent in order to inform the elected representatives in their decision making.
- 3.6 The Independent Investment Consultant, the Director of Resources, Chief Financial Officer, Corporate Finance Manager and Treasury and Capital Manager also attend the Sub-Committee meetings as advisers.
- 3.7 The Sub-Committee meets at least quarterly. Additional meetings are called as appropriate.
- 3.8 The Sub-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 Sub-Committee are presented to the Executive of the Council.
- 3.9 From time to time, the Sub-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 Sub-Committee and the remaining membership of the Sub-Group will be appropriate to the purpose and may therefore include other members of the Sub-Committee. The minutes and decisions of these sub-groups will be presented to the Sub-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:
 - 4.1.ii.1. the financial accounting of the Fund,
 - 4.1.ii.2. the preparation of the Pension Fund Annual Report, and
 - 4.1.ii.3. 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 Treasury and Capital Section within the Finance Service.

4.3 Head of Customer Services

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

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 Sub-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 Sub-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 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 Sub-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
- BC Consultants
- Borders Sport and Leisure Trust
- Gala Youth Project
- Jedburgh Leisure Facilities Trust
- Lothian and Borders Community Justice Authority
- Scottish Borders Housing Association

Admitted bodies with Deferred or Retired Members only

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

ANNEX 3

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 2008

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
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 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 for the year ended 31 March 2012 on pages 14 to 28. 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 2011-12 (the 2011-12 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 Border Council and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, 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 me 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 misstatements or inconsistencies with the audited financial statements. 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 2012, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

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

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

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

Matters on which we are required to report by exception

We 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.

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

28 September 2012