



# **ANNUAL REPORT AND ACCOUNTS**

## **THE PENSION FUND OF THE SCOTTISH BORDERS COUNCIL**

**FOR THE YEAR TO 31 MARCH 2011**

## Contents

	<b>Page</b>
<b>Foreword by Director of Resources</b>	2
<b>Review of the Year</b>	
Fund Performance	4
Investment Strategy	5
Investment Performance	6
Fund Update	8
<b>Statement of Responsibilities for the Statement of Accounts</b>	9
<b>Statement on the System of Internal Financial Control</b>	10
<b>Statement of Accounts 2010/11</b>	
Fund Account	12
Net Assets Statement	13
Notes to the Accounts	14
<b>Governance Compliance Statement</b>	22
<b>Annex 1 Annual Actuarial Statement</b>	26
<b>Annex 2 Governance Policy Statement</b>	35
<b>Annex 3 Glossary of Terms</b>	40
<b>Additional Information</b>	42
<b>Independent Auditor's Report</b>	43

## FOREWORD

### Introduction

Welcome to the Annual Report and Accounts for the year ended 31 March 2011.

Although the Scottish Borders Council Pension Fund (“the Fund”) has produced an annual report for a number of years, there are significant changes to the format of this year’s report due to the requirements of the Local Government Pension Scheme Regulations 2008.

These Regulations require the Council to produce a separate statement of accounts for the Pension Fund and incorporate it into an Annual Report. The Annual Report must also contain a Governance Compliance Statement which demonstrates how well the Fund complies with the best practice principles set out by the Scottish Government.

The Statement of Accounts contained in this report present the Fund’s financial position for the year ended 31 March 2011. These have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (“the Code”), supported by International Financial Reporting Standards (IFRS).

### Management Arrangements for the Fund

With the current vacancy for the post of Chief Financial Officer (CFO), the Director of Resources has taken over as interim Section 95 Officer and as such has responsibility for signing the Statement of Accounts.

The Chief Executive of Scottish Borders Council retired on the 15<sup>th</sup> August 2011. During the interim period the Directors of Social Work, Resources and Education and Lifelong Learning will fulfil the responsibilities of the Chief Executive on a monthly rotation basis.

### Key Facts And Figures

***Pension and other benefits paid out*** totalled £14.3 million (£13.4m last year).

***Employers contributed*** £14.9 million to the Fund (£13.5m).

***Employees contributed*** £4.6 million (£4.5m).

***Fund membership*** increased by 140 to 8,852.

***Net Transfer values paid into the Fund because staff changed employers*** were £1.7 million (£3.6m).

***Value of the Fund*** is £379 million (£339m).

***The Increase in the Value of the Fund*** has been achieved mainly through realised gains achieved on the sale of investments and there have also been net unrealised gains in portfolio market value.

***Operational and Investment Income Surplus*** of £11.1 million was generated (£10.1m).

## Future Developments

The Independent Public Sector Pension Commission (the Hutton Review) reported in March 2011, with its key recommendations being the introduction of a career average earnings pension scheme to replace the current defined benefits schemes in the Public Sector, including the Local Government Pension Scheme (LGPS), and the increase in the employee contribution rates. The UK Government has accepted the recommendations and a period of consultation is currently underway. The implementation of these proposals will become the focus of much attention for the Fund over the next few years.

In relation to the Fund itself the next year will see the implementation of two new managers, one for a Global High Alpha Mandate and the other for a Multi Asset Manager. These are both key elements of proposals to diversify and de-risk the fund as it continues to grow in size.

The Fund is subject to a detail actuarial valuation process on a triennial basis, and the next valuation will be as at 31 March 2011. This will provide the basis of the review of employer contribution levels into the Fund.

## Acknowledgement

I would like to thank the Councillors and Lay Members of the Pension Fund Sub-Committee and colleagues within the Council for their hard work and commitment during the year.

**Tracey Logan**  
**Director of Resources/Interim Section 95 Officer**  
**30 September 2011**

## REVIEW OF THE YEAR

### Fund Performance

Over the year, equity markets have continued to perform well with investor sentiment remaining positive, despite political instability in the Middle East and North Africa and renewed fears over European debt problems. Bonds generated a return of 7.7% for the year. Yields rose towards the end of the year on upward inflationary expectations. This was particularly evident in the Eurozone. The overall value of the Fund has increased by 12.0% to £379 million at 31 March 2011.

Of the £40 million increase in the value of the fund, £17.6 million was realised through sales of investments, a further £10.1 related to an unrealised increase in the market value of the Fund and gains on currency hedges contributed £1.71m. The latter reflected the impact of an increase in the strength of sterling against hedged currencies. Net investment income and a surplus of contributions receivable over those payable accounted for the remainder of the increase in value.

The operating surplus of £5.8 million was £0.2 million higher than in 2010.

#### ***“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 2011. 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 of the Bonds Mandate in July 2010, so that Corporate Bonds are now managed on a 'core plus' basis by investment in the Corporate Bond Plus Fund.

The following table indicates the 31 March 2011 position in relation to asset allocation versus the revised benchmark which was agreed as part of the new Investment Strategy:

<b>Asset Class</b>	<b>Asset Allocation at 31/3/11 %</b>	<b>Revised Benchmark %</b>
Equities	80	70
Gilts & Bonds	15	15
Alternative Assets	0	10
Property	5	5
Cash	0	0
<b>Total</b>	<b>100</b>	<b>100</b>

The main reason for the difference in the asset allocation at 31 March 2011 is that the proposed new alternative asset mandate has not yet been implemented.

During 2010/11 work has continued with the implementation and the ongoing review of investment activities. The procurement process for two new fund managers one for a multi asset fund and one for an additional global equity manager was initiated with the completion of the procurement process anticipated by the end of September 2011. The funding of the new mandates will then be implemented over the following few months. In addition the Fund in conjunction with its Independent Investment Consultant has been monitoring and reviewing the approach to currency hedging and the property mandate.

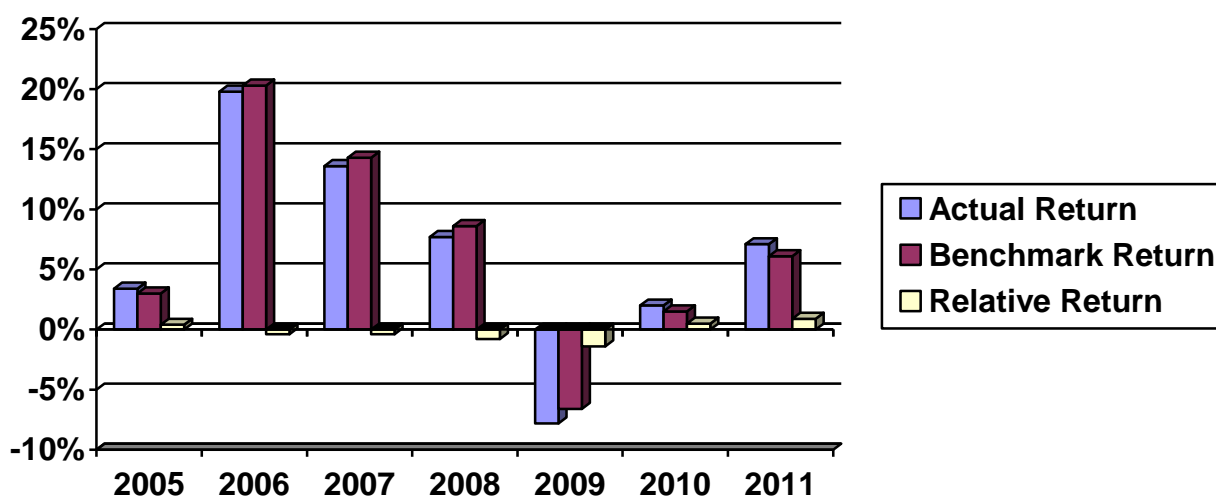
The Fund's fully revised Statement of Investment Principles (SIP) and Funding Strategy Statement were both approved in June 2010. These documents reflect the changes to the Local Government Pension Scheme Regulations during 2009 and early 2010 as well as updated guidance from the Chartered Institute for Public Finance Accountants (CIPFA). As part of this update the Council revised the statements within the SIP in relation to Environmental, Social and Corporate Governance considerations in relation to investment. These two documents are available on the Pension Fund website [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions).

## REVIEW OF THE YEAR

### Investment Performance

The Council employ 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.

Annualised 3 year returns ending 31 March



The overall fund return over 3 years was 7.1% versus the benchmark of 6.1% 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 <sup>1</sup> %	LA <sup>2</sup> %	SBC %	Bench <sup>1</sup> %	LA <sup>2</sup> %
<b>Total Fund inc Hedging</b>	<b>10.4</b>	<b>8.8</b>	<b>8.2</b>	<b>7.1</b>	<b>6.1</b>	<b>5.4</b>
<b>Total Fund ex Hedging</b>	<b>10.1</b>	<b>8.5</b>	<b>n/a</b>	<b>7.7</b>	<b>6.9</b>	<b>n/a</b>
Total Equities	11.0	8.4	9.2	9.1	7.1	6.9
UK Equities	13.4	8.7	9.7	6.4	5.4	5.7
UK Bonds	8.0	6.2	5.9	6.4	5.9	6.8
Property	7.7	9.1	9.7	-7.6	-3.9	-4.2
Cash	-2.2	n/a	2.2	0.6	n/a	2.4

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

<sup>2</sup> **LA:** Local Authority Weighted Average Return based on WM Company's League Tables for period to 31 March 2011

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 2011 were**

Company	Market Value of Holding £ m	Company	Market Value of Holding £ m
Svenska Handelsbanken	2.7	DBS Group Holding Ltd	2.2
Nestle	2.6	Naspers Ltd – N Shares	2.2
Prudential	2.6	Walgreen	2.1
Wolseley	2.5	Richemont	2.0
Atlas Copco B	2.5	Pepsico	2.0
Schindler PC	2.5	Wellpoint Inc	2.0
Microsoft Corp Com	2.5	Inpex Holdings Inc.	2.0
Citigroup	2.3	Brambles	1.9
BG Group	2.3	FLIR Sys.	1.9
Yamaha Motor	2.2	Apple Inc	1.8



## REVIEW OF THE YEAR

### Fund Update

#### Membership Details

Member Status	As at 31/3/2009	As at 31/3/2010	As at 31/3/2011
Contributing	4,501	4,466	4,415
Deferred	1,862	2,004	2,061
Pensioners/Dependants	2,094	2,242	2,376
<b>Total</b>	<b>8,457</b>	<b>8,712</b>	<b>8,852</b>

<b>Contributing Member</b>	<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>
<b>Deferred Member</b>	<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>
<b>Pensioner/Dependant Member</b>	<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 19 of the Statement of Annual Accounts for the Fund (page 20).

#### Pension Increases

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

#### Pensions Administration Strategy

The Council is in the process of developing a Pensions Administration Strategy. As part of this process service performance standards will be defined, monitored through the Pension Fund Sub-Committee and reported through the Annual Report. The aim is to have this Strategy formally adopted by 31 March 2012 and the first formal reporting of this will be in the Annual Report of 2012/13.

#### Actuarial Valuation

Annex 1 contains the formal Actuarial Statement for 2010/11.

## 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 2011, and of its income and expenditure for the year ended 31 March 2011.

**Tracey Logan**  
**Director of Resources/Interim Section 95 Officer**  
**30 September 2011**

## 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 interim Statutory Officer for Finance (Section 95 officer) for the Council, I acknowledge my responsibility for the role of putting in place the arrangements for the proper administration of financial affairs of the Pension Fund and of making sure that an effective system of internal financial control is maintained and operated in connection with the resources concerned.
2. 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.
3. 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.
4. The Council has an Internal Audit function, which operates in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Internal Audit in Local Government. The Head of Audit & Risk (HAR) is line managed by the Director of Resources. The HAR reports directly to the Audit Committee and meets with them in private session twice per year and also has direct unimpeded access throughout the year to the Chief Financial Officer (Section 95 Finance Officer), Chief Executive and the Head of Legal & Democratic Services (Monitoring Officer). The work of the Internal Audit function is informed by an analysis of the risk to which the Council is exposed, and annual Internal Audit plans are based on this analysis, and then endorsed and approved by the Audit Committee. The Committee meets four times each year at which the HAR provides the Audit Committee with a report on Internal Audit activity. The Internal Audit Annual Report presented to the June meeting of the Audit Committee includes the HAR's independent opinion on the adequacy and effectiveness of the systems of internal financial control, internal control and governance, and security control on computer network infrastructure.

5. 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) An Assurance Statement from the each of the three senior finance managers (Corporate Finance Manager, Financial Services Manager and Customer Services Manager) on the standard of internal financial control within their respective service area for the period 1 April 2010 to 31 March 2011.
6. 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 31 January 2011, in the interim and until the appointment of a Chief Financial Officer. In determining the options for the interim Section 95 Officer, advice was sought from both internal and external audit and further arrangements have been put in place to mitigate any associated risks, perceived or otherwise. For example, specific powers have been delegated to the Corporate Finance Manager, Financial Services Manager and Customer Services Manager in respect of their roles which have been reflected in the Council's Scheme of Delegation approved by Council 24 March 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 2011.
7. 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 of a separate Risk Register for the Pension Fund.
  - (c) 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

**Tracey Logan**  
**Director of Resources/Interim Section 95 Officer**  
**30 September 2011**

## STATEMENT OF ACCOUNTS 2010/11

### FUND ACCOUNT

2009/10 £'000		2010/11 £'000	Notes
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
17,992	Contributions Receivable	19,525	<b>6,14</b>
3,550	Transfers In	1,727	<b>7</b>
21,542		21,252	
(13,403)	Benefits Payable	(14,301)	<b>8,14</b>
(2,358)	Payments to and on account of leavers	(898)	<b>9</b>
(220)	Administration expenses	(286)	
(15,981)		(15,485)	
<b>5,561</b>	<b>Net Additions/(Withdrawals) from dealings with members</b>	<b>5,767</b>	
	<b>Return on Investments</b>		
6,111	Investment Income	7,025	<b>10</b>
92,912	Profits and losses on disposal of investments and changes in the market value of investments	29,389	<b>11</b>
(386)	Taxes on Income	(458)	
(1,178)	Investment Management Expenses	(1,145)	
<b>97,459</b>	<b>Net Return on Investments</b>	<b>34,811</b>	
<b>103,020</b>	<b>Net increase/(decrease) in the fund during the year</b>	<b>40,578</b>	
235,741	Opening Net Assets of the Scheme	338,761	
<b>338,761</b>	<b>Closing Net Assets of the Scheme</b>	<b>379,339</b>	

## NET ASSETS STATEMENT

2009/10 £'000		2010/11 £'000	Notes
	<b>Investment Assets</b>		
22,122	Fixed Interest - Public Sector	24,708	} <b>12,13</b>
846	Fixed Interest – Other	2,052	
217,794	Equities	244,826	
-	Index Linked - UK	-	
	<b>Managed Funds</b>		
16,375	Property	17,606	
45,258	Life (Equity)	49,233	
26,059	Bonds	27,092	
1,658	Open Ended Investment Contracts	2,224	
139	Money Market Instruments	-	
1,174	Derivatives – Forward Foreign Exchange	277	
6,288*	Cash Deposits	8,357	
337,713		376,375	
892	Other Investment Balances	1,052	
	<b>Current Assets &amp; Liabilities</b>		
-	Cash Balances	653	
201	Contributions due from Employers	133	
1,226	Other Current Assets	2,152	
(1,271)	Other Current Liabilities	(1,026)	
156		1,912	
<b>338,761</b>	<b>Net Assets</b>	<b>379,339</b>	

**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.**

\* Cash of £6.288m held by Fund Managers and previously shown as Cash Balances in the 2009/10 accounts has been shown as Cash Deposits under Investment Assets on the Net Assets Statement above.

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 30 September 2011.

**Tracey Logan**  
**Director of Resources/Interim Section 95 Officer**  
**30 September 2011**

## 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 1998, 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

The Scottish Government has issued statutory accounting guidance for the Local Government Pension Scheme (LGPS) financial statements for 2010/11 in Finance Circular 1/2011, which requires administering authorities to publish the financial statements within a LGPS Annual Report and in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 ('the Code'), which incorporates International Financial Reporting Standards (IFRS). The statutory guidance provides that for 2010/11 onwards the LGPS Annual Report should be published separately from the Authority's own financial statements and that LGPS Annual Report contents should comply with the requirements of Scottish Statutory Instrument 2010/234. LGPS financial statements are required to receive a separate audit report.

The Pension Fund financial statements for 2010/11 are the first to be prepared on an IFRS basis. No restatements of balances or transactions were required as a result of the adoption of IFRS.

### 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 2011 was £0.809m (2009/10 £0.843m). During the year contributions of £0.1m were made. In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) 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 next detailed actuarial valuation based on the projected unit methodology will be carried out for the Fund as at 31<sup>st</sup> March 2011 and will be completed during the financial year 2011/12 by the Fund's actuaries, Barnett Waddingham. The impact on the funding level of the fund will be included in the March 2012 annual report of the fund. Any changes to the contribution rate will be from 1<sup>st</sup> April 2012.

The last full actuarial valuation was undertaken for the Fund as at 31 March 2008 and was completed during the financial year 2008/09 by the Fund's actuaries Barnett Waddingham. The funding level of the Fund as at the 31 March 2008 was 96.5%, slightly above the valuation as at 31 March 2005. The following table summarises the funding position.

### Past Service Funding Position – Scottish Borders Council Pension Fund

Valuation Date	2005 £m	2008 £m
Value of the Scheme Liabilities	238.8	310.1
Smoothed Asset Value	222.9	299.2
<b>Surplus/ (Deficit)</b>	<b>(15.9)</b>	<b>(10.8)</b>
<b>Funding Level</b>	<b>93.3%</b>	<b>96.5%</b>

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two. The 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.

## 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 £464.62m (2010: £509.29m). 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

2009/10				2010/11		
Employers £'000	Members £'000	Total £'000		Employers £'000	Members £'000	Total £'000
13,006	4,413	17,419	Normal	13,265	4,553	17,818
475	-	475	Special/Pension Fund Strain	1,623	-	1,623
-	98	98	Additional Voluntary	-	84	84
<b>13,481</b>	<b>4,511</b>	<b>17,992</b>	<b>Total</b>	<b>14,888</b>	<b>4,637</b>	<b>19,525</b>

## 7 TRANSFERS IN

There were no group transfers in to the scheme during 2010/11 or 2009/10 and the total of £1.727m (2009/10: £3.550m) represents the total of transfer values in respect of individual members joining the scheme.

## 8 BENEFITS PAYABLE

2009/10 £'000		2010/11 £'000
10,173	Pension Payments	10,639
3,230	Lump Sums/Death Benefits	3,662
<b>13,403</b>		<b>14,301</b>

## 9 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2009/10 £'000		2010/11 £'000
84	Contributions Returned	47
2,274	Individual Transfers to other Schemes	851
<b>2,358</b>		<b>898</b>

## 10 INVESTMENT INCOME

2009/10 £'000		2010/11 £'000
(853)	Income from Fixed Interest Securities	(1,064)
(4,666)	Dividends from Equities	(5,616)
(9)	Income from Index Linked Securities	-
(532)	Income from Pooled Investment Vehicles	(321)
(51)	Interest on Cash Deposits	(24)
<b>(6,111)</b>		<b>(7,025)</b>

## 11 CHANGE IN THE MARKET VALUE OF INVESTMENTS

2009/10 £'000		2010/11 £'000
(6,633)	Realised	(19,293)
(86,279)	Unrealised	(10,096)
<b>(92,912)</b>	<b>Total</b>	<b>(29,389)</b>

## 12 MARKET VALUE OF THE SCHEME'S INVESTMENT ASSETS

As at 31 March 2011 the market value of the assets under management was:

31 March 2010		Manager	31 March 2011	
£'000	%		£'000	%
201,499	59.67	UBS	217,032	57.66
134,967	39.96	Baillie Gifford	153,997	40.92
1,174	0.35	JP Morgan	277	0.07
73	0.02	Internal	5,069	1.35
<b>337,713</b>	<b>100</b>		<b>376,375</b>	<b>100</b>

## 13 ANALYSIS OF INVESTMENT ASSETS

2009/10				2010/11		
UK £'000	Overseas £'000	Total £'000		UK £'000	Overseas £'000	Total £'000
22,122	-	22,122	Fixed Interest – Public Sector	24,708	-	24,708
631	215	846	Fixed Interest – Other	1,753	299	2,052
50,709	167,085	217,794	Equities	56,066	188,760	244,826
-	-	-	Index Linked - UK	-	-	-
			<b>Managed Funds</b>			
16,375		16,375	Property	17,606		17,606
45,258		45,258	Life – Equity	49,233		49,233
26,059		26,059	Bonds	27,092		27,092
1,658		1,658	Open Ended Investment Contracts	2,224		2,224
139		139	Money Market Instruments	-		-
1,174		1,174	Derivative – Forward Foreign	277		277
			Exchange Contracts			
6,288		6,288	Cash Deposits	8,357		8,357
<b>170,413</b>	<b>167,300</b>	<b>337,713</b>		<b>187,316</b>	<b>189,059</b>	<b>376,375</b>

As at 31 March 2011 assets valued at £367.741m were quoted on the Stock Exchange (31 March 2010: £330.178m). Assets valued at £5.069m at 31 March 2011 were unquoted (31 March 2010: £0.073m). During 2010/11 sales of investments totalled £115.832m and purchases totalled £125.164m. 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 2011 were hedging a foreign currency exposure value of £92.53m and had a market value of a gain of £276,941. These contracts had a maturity date of 30 June 2011.

The following value of investments exceed 5% of the total value of the net assets of the Pension Fund at 31 March 2011. Each of the investments comprises units in a managed fund.

	<b>Total £'000</b>
UBS Life UK Equity Tracker Fund 'A' Units	49,233
UBS Life UK Corporate Bond Fund 'A' Units	27,092

## Investment Transactions

	Opening Market Value	Purchases & Derivative Payments	Sales Proceeds & Derivative Receipts	Other Movements	Closing Market Value
	£'000	£'000	£'000	£'000	£'000
Fixed Interest – Public Sector	22,122	6,989	(5,045)	642	24,708
Fixed Interest – Other	846	1,722	(579)	63	2,052
Equities	217,794	86,274	(79,151)	19,909	244,826
Index Linked - UK	0	237	(256)	19	0
<b>Managed Funds</b>					
Property	16,375	900	(700)	1,031	17,606
Life (Equity)	45,258	-	-	3,975	49,233
Bonds	26,059	29,042	(30,101)	2,092	27,092
Open Ended Investment Contracts	1,658	-	-	566	2,224
Money Market Instruments	139	-	-	(139)	0
Derivative Contracts	1,174	-	(3,779)	2,882	277
	<b>331,425</b>	<b>125,164</b>	<b>(119,611)</b>	<b>31,040</b>	<b>368,018</b>

## 14 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

	2010/11	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	13,338	17,908
Scheduled Bodies	147	556
Admitted Bodies	816	1,061
<b>Total</b>	<b>14,301</b>	<b>19,525</b>

## 15 AUDIT REMUNERATION

In 2010/11 the agreed audit fee for the year was £25,000.

## 16 STATEMENT OF INVESTMENT PRINCIPLES AND FUNDING STRATEGY

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.

## 17 INVESTMENT MANAGEMENT ARRANGEMENTS

Investment Management is undertaken on behalf of the Council 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 2011 UBS Global Asset Management managed 57.66% 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 Fund, Property and Bonds 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 40.92% of the fund's investments at 31 March 2011. 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.

1.35% of the Fund was managed by Council staff at 31 March 2011, consisting 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. These appointments are expected to be completed towards the end of 2011.

The total fund return for the year was 10.4% including the currency hedging. The hedging arrangements had a positive impact increasing the return by 0.3%. Excluding the currency hedging, the return on the fund was 10.1% which was 1.5% ahead of the benchmark return of 8.5%.

Over three years the Fund has generated an annualised return of 7.1% per annum, including the currency hedging, which outperformed the benchmark by 1% per annum.

## **18 STOCK LENDING**

As at 31 March 2011 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 £3.228m (2010: £2.853m) of cash deposited with Scottish Borders Council, on which interest of £0.011m (2010: £0.008m) was paid. In addition the Council charged the Pension Fund £0.262m in respect of expenses incurred in administering the fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balances held by Scottish Borders Council at the balance sheet date and disclosed in the net assets statement were as follows:

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Fund Bank Accounts - Due from Scottish Borders Council	653	-
Due from Scottish Borders Council	799	938

## 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.

<b>Membership Details as at 31 March 2011</b>	<b>Contributors</b>	<b>Pensioners</b>	<b>Deferred Pensioners</b>	<b>Employer's Contribution Rate (% of Pay)</b>
Scottish Borders Council	4,097	2,256	1,911	18.0%
Borders College	119	42	71	18.0%
Visit Scotland (Scottish Borders)	3	4	10	18.0%
Scottish Borders Housing Association	146	43	45	18.0%
Borders Sport and Leisure Trust	30	3	14	18.5%
Jedburgh Leisure Facilities Trust	3	-	1	18.5%
Gala Youth Project	-	-	2	0.0%
Scottish Borders Careers	-	1	3	0.0%
Heriot Watt University (formerly S.C.O.T.)	-	23	3	0.0%
Lothian and Borders Community Justice Authority	4	1	-	18.0%
Amey Community Limited	13	-	1	17.5%
Others	-	3	-	0.0%
<b>Total</b>	<b>4,415</b>	<b>2,376</b>	<b>2,061</b>	

## 21 MEMBERSHIP RECONCILIATION 2010/11

### Membership Reconciliation as at 31 March 2011

	Contributors	Pensioners	Deferred Pensioners	Total
Number at 1 April 2010 (inc Councillors)	4,466	2,242	2,004	8,712
Adjustments (late notifications etc)	3	-	(6)	(3)
New Members	348	-	1	349
Transfers to Other Schemes	(36)	-	(20)	(56)
Refunds of Contributions	(100)	-	-	(100)
Retirement of Contributing Members	(119)	119	-	-
Transfer to Deferred Pensioners	(157)	-	157	-
Re-employed Deferred Pensioners	16	-	(16)	-
Retirement of Deferred Pensioners	-	55	(55)	-
Dependants' Pensions	-	31	-	31
Deaths	(6)	(61)	(4)	(71)
Commutation (trivial pensions)	-	(6)	-	(6)
Ill Health Grant	-	-	-	-
End of Entitlement	-	(4)	-	(4)
<b>Number at 31 March 2011</b>	<b>4,415</b>	<b>2,376</b>	<b>2,061</b>	<b>8,852</b>

## 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 1/80<sup>th</sup> pension plus 3/80<sup>th</sup> lump sum to an improved accrual rate of 1/60<sup>th</sup> 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 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](http://www.scotborders.gov.uk/pensions).

Principle		Full Compliance	Comments
<b>Structure</b>			
A	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Yes	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)
<b>Committee Membership and Representation</b>			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	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)

<b>Principle</b>		<b>Full Compliance</b>	<b>Comments</b>
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>
<b>Selective and role of lay members</b>			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	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.
<b>Voting</b>			
A	The policy of individual administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This explained in Annex 2 Section 3.5.



Principle		Full Compliance	Comments
<b>Training/Facility time/Expenses</b>			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy 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.
<b>Meetings (frequency/quorum)</b>			
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.
<b>Access</b>			
A	Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	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.

<b>Principle</b>		<b>Full Compliance</b>	<b>Comments</b>
<b>Scope</b>			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out the remit of the Pension Fund Sub-Committee (PFSC). (see Annex 2 Section 2.3 )
<b>Publicity</b>			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest 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 2010/11

**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 2011.

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 Triennial Actuarial Valuation as at 31 March 2008 which was carried out for funding purposes;

Estimated whole fund income and expenditure items for the period to 31 March 2011;

Estimated whole fund returns for the period to 31 March 2011 based on assets used for the purpose of the Triennial valuation as at 31 March 2010, actual fund returns for the period to 28 February 2011 and then market returns (estimated where necessary) for the period to 31 March 2011;

Details of any new early retirements for the period to 31 March 2011 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 2008.

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	4,260	64,727	46
Deferred Pensioners	1,768	1,343	46
Pensioners	1,987	8,680	70

## Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2011 is estimated to be 6.4%. This is based on the estimated Fund value used at the previous accounting date 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 2011 is as follows:

Employer Asset Share - Bid Value	31 March 2011		31 March 2010	
	£000's	%	£000's	%
Equities	286,546	77%	269,419	79%
Gilts	26,050	7%	22,273	6%
Other Bonds	29,771	8%	27,231	8%
Property	18,607	5%	16,586	5%
Cash	11,164	3%	8,435	2%
<b>Total</b>	<b>372,138</b>	<b>100%</b>	<b>343,943</b>	<b>100%</b>

The final asset allocation of the Fund assets as at 31 March 2011 is likely to 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 2011, we have rolled forward the value of the Employer's liabilities calculated for the Triennial valuation as 31 March 2008 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 2011 without completing a full valuation. However we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2011 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 2008. The post retirement mortality tables adopted were the PA92 series projected to calendar year 2008 for current pensioners and 2018 for non-pensioners with the future improvement in mortality set at a minimum of 1% per annum.

The assumed life expectations from age 65 are:

Life Expectancy from age 65 (years)		
Retiring Today		
	Males	18.6
	Females	21.5
Retiring in 20 years		
	Males	19.5
	Females	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 2011		31 March 2010		31 March 2009	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.5%	-	3.9%	-	3.0%	-
CPI increases	2.7%	-0.8%	n/a		n/a	
Salary Increases	5.0%	1.5%	5.4%	1.5%	4.5%	1.5%
Pension Increases	2.7%	-0.8%	3.9%	-	3.0%	-
Discount Rate	5.5%	1.9%	5.5%	1.5%	6.7%	3.6%

These assumptions are set with reference to market conditions at 31 March 2011. 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 3.5%. 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. 2.7%. Salary increases are then assumed to be 1.5% above RPI in addition to a promotional scale as per last year.

## 4. Results and Disclosures

The results of our calculations for the year ended 31 March 2011 are set out in Appendix 1. We estimate that the net liability as at 31 March 2011 is a liability of £92,483,000.

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 19. 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**

### NOTE:

A copy of the full 2008 Actuarial Valuation Report is available online at [www.scotborders.gov.uk/pensions](http://www.scotborders.gov.uk/pensions)



## Appendix 1. Balance Sheet Disclosure as at 31 March 2011

Net Pension Asset as at	31 Mar 2011 £000's	31 Mar 2010 £000's	31 Mar 2009 £000's
Present Value of Funded Obligation	464,621	509,292	314,872
Fair Value of Scheme Assets (bid value)	372,138	343,943	232,581
<b>Net Liability</b>	<b>92,483</b>	<b>165,348</b>	<b>82,291</b>

\*Present Value of Funded Obligation consists of £354,746,000 in respect of Vested Obligation and £109,875,000 in respect of Non-Vested Obligation.

## Appendix 2. Asset and Benefit Obligation Reconciliation for the Year to 31 March 2011

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

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

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

## 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.

### 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 investments.
  - ii Employer discretions under Local Government Pension Scheme (Scotland) Regulations 1998<sup>1</sup>
- 2.4 Financial affairs are conducted in compliance with the Council's Financial Regulations.
- 2.5 Funds are invested in compliance with the Council's Statement of Investment Principles.

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<sup>1</sup> 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:

<b>Chairman</b>	Convenor of the Council
<b>Vice Chairman</b>	Depute Leader (Finance)
	Depute Leader (Human Resources)
	Executive Member for Corporate Improvement
	One other Member of Executive
	Two members of 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](http://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](http://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](http://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

<b>Actuaries:</b>	Barnett Waddingham
<b>Auditors:</b>	Audit Scotland
<b>Bankers:</b>	Bank of Scotland
<b>Investment Consultancy:</b>	Aon Hewitt
<b>Investment Custodians:</b>	JP Morgan
<b>Investment Managers:</b>	Baillie Gifford, UBS
<b>Additional Voluntary Contributions (AVC) Managers:</b>	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 <a href="mailto:gwilson@scotborders.gov.uk">gwilson@scotborders.gov.uk</a>	

*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](http://www.scotborders.gov.uk/pensions)

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

Lynn Mirley	Telephone 01835 – 825016
Treasury & Capital Manager	E-mail <a href="mailto:lmirley@scotborders.gov.uk">lmirley@scotborders.gov.uk</a>

# Independent Auditor's Report

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

I certify that I have audited the financial statements of Scottish Borders Pension Fund for the year ended 2010/11 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities [set out on page 9], the Director of Resources, acting s.95 officer, is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My 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 s.95 Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the financial transactions of the fund during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; 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 prescribed matters**

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- The Statement on the System of Internal Financial Control does not comply with the 2010/11 Code.

I have nothing to report in respect of these matters.

Gillian Woolman FCA,  
Assistant Director  
Audit Scotland – Audit Services  
Osborne House, 1/5 Osborne Terrace  
Edinburgh, EH12 5HG  
30 September 2011