

**Scottish Borders Council  
Pension Fund  
Draft annual  
report and  
accounts  
for the year to 31 March 2024**

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

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**Scottish Borders Council Pension Fund**  
**Draft Annual Report and Accounts for the year to 31 March 2024**  
**SECTION 1 – MANAGEMENT COMMENTARY**

## CHAIRMAN'S REPORT

### Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund (the 'Fund') for the year ended 31 March 2024. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in the financial year 2023/24.

### Highlights of the Year

#### Pension Fund Committee/Pension Board

The Fund has continued to strengthen its governance and stewardship of the Fund over the year. The Fund continued with a second successful application as a signatory of the UK Stewardship Code.

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

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

#### Funding

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

#### Investments

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

#### Statement of Responsible Investment

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

#### Pensions Administration

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

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Good progress has been made on the delivery of actions set out in the Fund's business plan. Updates were made to the Communication and Overpayment Policies and a review of the Pensions Administration Strategy carried out. All information provided in time for the Triennial Valuation with excellent feedback from the Fund Actuary on the quality of the data provided. The first Annual Newsletter was issued which is a welcome addition to the communications with all categories of fund members.

### **Acknowledgement**

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

Chairman, Pension Fund Committee **Scottish Borders Council**

# Scottish Borders Council Pension Fund

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### MANAGEMENT COMMENTARY

#### OVERVIEW OF FUND BUSINESS

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

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

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

#### STRATEGY AND OBJECTIVES

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

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

#### KEY NUMBERS OF THE FUND

- Total membership of 12,879 (12,561 in 2022/23)
- Total pension paid £32.7m (£28.3m 2022/23)
- Total contributions received £26.7m (£24.3m 2022/23)
- Total investments held £936.8 (£866.0m 2022/23)
- Investment performance of 9.1% for 2023/24 (-4.8% 2022/23)

#### GOVERNANCE

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

Prompted by the increased scrutiny of Local Government Pension Scheme ('LGPS') funds and increasing standards of governance introduced by legislation and the Pensions Regulator, an Independent Adviser was commissioned to undertake a review of the Governance of the Fund during October and November 2022. The Independent Adviser submitted a report 'Review of Governance of the Scottish Borders Council Pension Fund' with recommendations to the December 2022 meeting of the Pension Fund Committee and the Pension Fund Board. The report outlined several recommendations which concerned matters related to: Governance Structure and Decision Making; Objectives and Planning; Outcomes and Oversight; Risk Management; and Audit. Action plan developed during 2023/24 following the recommendations.

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

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Pension Fund Board has 2 members representing the employers and 4 trade union members representing the employees.

The Fund, annually, agrees a three-year business plan which sets out the action plan to deliver the key work areas identified to ensure objectives continue to be met and any new legislative requirements are built into work plans. The actions are monitored and reported to the Joint Pension Fund Committee and Pension Fund Board. The key actions completed in 2023/24 were:

- Completed second successful application for membership of the UK Stewardship Code during 2023/24.
- Communication Strategy and Action Plan reviewed and approved September 2023 in line with best practice and technological advancements.
- First annual newsletter distributed March 2024.
- Continued to proactively manage and engage the Fund's Employers with the Annual Employer Liaison Meeting held in March 2024.
- Completion and approval of 2023 Triennial Valuation.
- Continued promotion of self service to all active and deferred members including online payslips and P60s.
- Pension Fund Committee approval of Governance Policy and Compliance Statement, Pensions Administration Strategy and Pension Fund Committee Training Policy.
- Reviewed and updated Responsible Investment Policy and annual reporting.
- Implementation of the decisions taken as part of the 2023/24 Investment Strategy Review including 2 new investments made in Nuveen and Quinbrook.

The Guaranteed Minimum Pension reconciliation has been further delayed, although further progress has been made since last year, due to the prioritisation of the Triennial Valuation during the year coupled with processing the recalculation of Pensions and Lump Sums following the late settlement of the Scottish Joint Council Pay Award for Scottish Borders Council employees, which was backdated to April 2023. There have been further legislative changes announced in relation to the remedy for McCloud; the Fund is currently evaluating the data held within the Pensions Administration system to determine what additional information, if any, is required from the Fund Employers.

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

- Review the Fund's strategic assets allocation following the results of the 2023 Actuarial Valuation.
- Review impact and compliance with General Code March 2024.
- Continue to monitor effective Communication Strategy for the Fund.
- Review of Employer covenants.
- Ensure accuracy of pension records.
- Continued promotion of self-service facility.
- Continued system improvements to support home working.
- Review services provided by IT providers to ensure data is secure and adheres to cyber security requirements.
- Review services provided externally to ensure that these represent best value to the Fund.

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### **RISKS AND UNCERTAINTIES**

As set out in the Risk Management Policy, the Pension Fund is committed to the application of appropriate and effective risk management practices in order to deliver its primary aim, which is 'to provide for members, pension and lump sum benefits on their retirement or for their dependents, benefits on death before or after retirement, on a defined benefits basis'.

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

The Pension Fund believes that appropriate application of good risk management practices will assist in the prevention or mitigation/minimisation of negative impacts and will increase success in the achievement of objectives and targets set in the associated SBC Pension Fund Business Plan and Strategies and ensure decision-makers are risk aware.

The Pension Fund purposefully seeks to promote an environment that is risk 'aware' and strives to place risk management information at the heart of key decisions. This means that the Pension Fund can take an effective approach to managing risk in a way that both addresses significant challenges and enables positive outcomes.

The Pension Fund maintains a Risk Register. Further information on this and the application of risk management practices can be found in section 2.

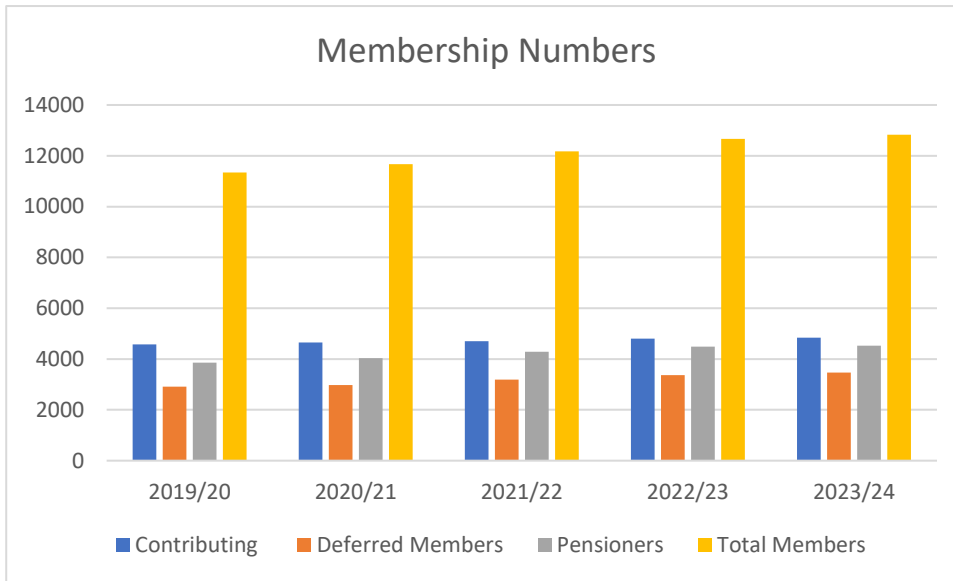
### **ADMINISTRATION AND MEMBERSHIP**

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

The Fund has paid pensions benefits of £32.7m during the year (£28.3m in 2022/23) and received contributions of £26.7m (£24.3m in 2022/23). The Fund had a net withdrawal of £3.8m (£5.1m in 2022/23) during the year which was funded from the investments. Pensions have been paid on time and contributions have been collected in accordance with scheme regulations in all instances. The ability for hybrid working has resulted in the administration function to continue to perform and deliver. Further information on the performance of Pension Administration and the Pension Administration Strategy can be found in section 4.

The maturing nature of the Fund is reflected in the membership numbers which are shown in the table over. Overall members at 31 March 2024 increased during the year to 12,879 but active contribution members now only represent 38% of the membership compared to 41% at 31 March 2018. The continued decrease in active members has resulted in the Fund looking to investments to provide income to ensure cash is available to pay the pensions as they are due.

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## COMMUNICATION

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

## FUNDING

The three yearly Actuarial Valuation for 31 March 2023 was completed in March 2024 which resulted in a funding position of 134% (110% at 31 March 2020) for the Fund. The next formal valuation of the Fund will be 31 March 2026. Monitoring of the funding position is undertaken on a quarterly basis and reported to the Pension Fund Committee.

The approved Funding Strategy Statement sets out the approach to funding. Further detail can be found in section 5 of the report and the full version of the Funding Strategy Statement is available via the Fund's website. [Funding Strategy Statement - 2023 | Scottish Borders Council \(scottishborderscouncilpensionfund.org\)](https://www.scottishborderscouncilpensionfund.org)

## INVESTMENT RETURNS

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

The Fund's investments delivered a return of 9.1% (-4.8% 2022/23) against a benchmark of 12.3%



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(2.3% 2022/23) for the year to 31 March 2024. Overall, the Fund's assets increased by £72m from 31 March 2023. The positive absolute performance over the past 12 months was driven by the Fund's global equity mandate, which have benefitted from increased investor optimism around a "no landing" scenario and the performance of the "Magnificent 7" technology stocks which dominate the market. The Fund's relative underperformance was driven by the Property and Infrastructure mandates as they continue to be impacted by the uncertainty over the future path of interest rates. We estimate the Fund's funding position improved, as the value of the Fund's assets increased, whilst the value placed on the Fund's liabilities decreased due the rise in gilt yields.

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

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

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

The Fund has an overriding obligation to act in the best interest of the scheme beneficiaries. As part of this role the Fund believes that a positive approach to Environmental, Social Governance issues can positively affect the financial performance of investments. The Fund has also undertaken a full review of its Responsible Investment Policy Targets and Metrics on 12 December 2023 and continues to focus on the 6 key responsible investment objectives:

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

These were left unchanged throughout 2023/24. Work has commenced in the assessment and collection of data to allow reporting and monitoring of SDG 13 Climate Change and SDG 7 Affordable & Clean Energy. Due to the lack of robust measurement criteria or data the remaining objectives will be reviewed regularly as data collection is developed.

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

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

The Fund actively investigates opportunities to increase investment in sustainable funds. Two clear

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

### **CLIMATE ACTION 100+**

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

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

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

### **ACKNOWLEDGMENT**

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

**Councillor David Parker**  
**Chairman**  
**Pension Fund Committee**

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

**Suzanne Douglas CPFA**  
**Director of Finance**  
**Scottish Borders Council**

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### KEY TRENDS

| Membership           | 2019/20       | 2020/21       | 2021/22       | 2022/23       | 2023/24       |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| Active Members       | 4,573         | 4,647         | 4,703         | 4,842         | 4,836         |
| Deferred Members     | 2,909         | 2,977         | 3,194         | 3,187         | 3,195         |
| Pensioners           | 3,856         | 4,040         | 4,281         | 4,532         | 4,848         |
| <b>Total Members</b> | <b>11,388</b> | <b>11,664</b> | <b>12,178</b> | <b>12,561</b> | <b>12,879</b> |

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

|                              | 2019/20<br>£000 | 2020/21<br>£000 | 2021/22<br>£000 | 2022/23<br>£000 | 2023/24<br>£000 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Administrative Costs         | (363)           | (352)           | (378)           | (450)           | (452)           |
| Oversight & Governance costs | (263)           | (318)           | (349)           | (338)           | (498)           |
| Pensioners Income            | 21,200          | 21,727          | 25,939          | 24,318          | 26,732          |
| Pensions Expenditure         | (26,555)        | (28,296)        | (26,071)        | (28,281)        | (32,654)        |
| Net Pensions Cashflow        | (5,355)         | (6,569)         | (132)           | (5,103)         | (3,774)         |

# Scottish Borders Council Pension Fund

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### SECTION 2 - GOVERNANCE

#### SCHEME ADMINISTRATION

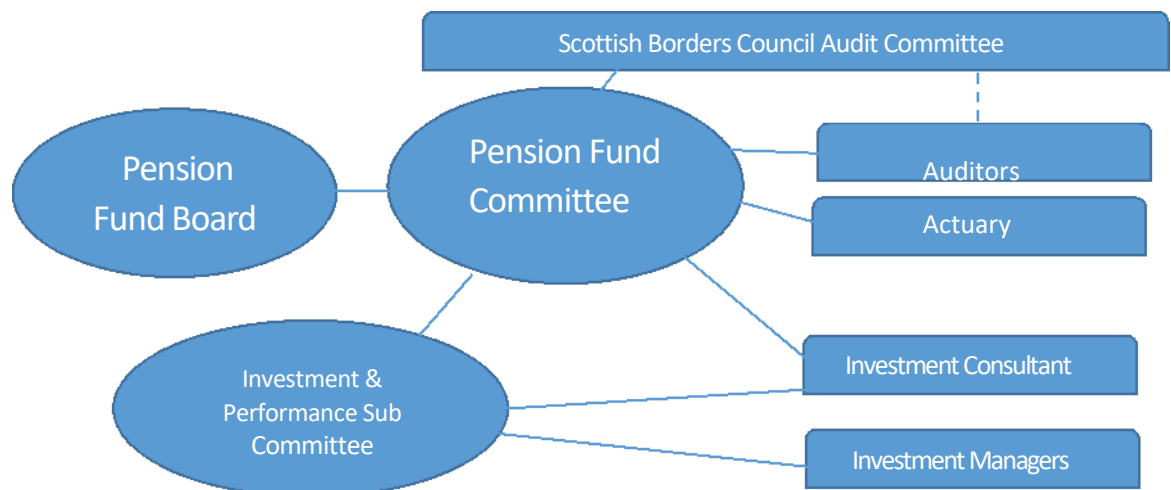
The Scottish Borders Council Pension Fund (the 'Fund') is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority).

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

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

#### SCHEME GOVERNANCE

The governance structure of the Fund can be seen below including the roles each of the



parties undertakes. The Pension Fund Committee and Pension Board meet jointly four times a year, with papers and minutes being available one week prior to the meeting.

Scottish Borders Council Pension Fund Governance:

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

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

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

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

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

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

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

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

### PENSION FUND COMMITTEE

Members of the Pension Fund Committee have a fiduciary responsibility to the Fund members and employers that are similar to those holding office of trustee in the private sector. The Members of the Pension Fund Committee are responsible for the decision making of the Fund and hold meetings four times a year. As at 31 March 2024, the Pension Fund Committee is comprised of six Councillors of Scottish Borders Council. The membership is shown below:



Councillor David Parker - Chair



Councillor Simon Mountford – Vice Chair



Councillor Carol Hamilton



Councillor Leagh Douglas  
From 26/09/2023



Councillor Sandy Scott



Councillor Donald Moffat

Councillor Watson McAteer to 30/05/2023

Councillor Pam Brown to 23/11/2023

### PENSION BOARD

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

The Pension Board comprises an equal number of employee and employer representatives

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appointed by scheme employers and relevant trade unions.

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

Employer Representatives:

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

Employee Representatives:

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

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

### INVESTMENT AND PERFORMANCE SUB-COMMITTEE








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

### RISK MANAGEMENT




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

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

The following table summarises the risk categorisation and risk ratings from the refreshed Pension Fund Risk Register as presented to the joint meeting of the Pension Fund Committee and Pension Board on 4 March 2024.

| Category                      | Number | Risk Ratings   |
|-------------------------------|--------|--|
| Funding                       | 3      | 3 x    |
| Investment                    | 3      | 2 x  and 1 x  |
| Administration                | 5      | 4 x  and 1 x  |
| Governance                    | 3      | 3 x    |
| National Policy / Regulations | 3      | 3 x    |

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|   |  |   |
|---|--|---|
| <b>Total</b>  | <b>17</b>  |   |
| Red (score 15-25)  | Amber (Score 6-12)  | Green (Score 1-5)  |

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

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

The 3-year Risk Management Strategy 2024-2026 outlines the approach that will be adopted to systematically identify, analyse, evaluate, control, record and monitor risks of the SBC Pension Fund, in support of the Risk Management Policy Statement. It will enable the SBC Pension Fund to continue to refine its approach to managing risks, with a focus on aligning Risk Management to the business planning and performance management process.

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

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

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

## TRAINING POLICY & PRACTICE STATEMENT

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

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

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

On 17 May 2023 an in person Training Day was organised for members of the Pension Fund

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Committee, Pension Board and officers of the Council involved in the management of the Fund. The following areas were covered:

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

All members are also required to attend, as a minimum, two meetings of the joint Pension Fund Committee and Pension Fund Board a year. The table below shows all six Members of the Pension Fund Committee and all seven members of the Pension Fund Board have met the attendance requirement for 2023/24

| No of events         | Committee Members<br>No of Members | Board Members<br>No of Members |
|----------------------|------------------------------------|--------------------------------|
| 8                    | 2                                  | 1                              |
| 7                    | 0                                  | 0                              |
| 6                    | 3                                  | 1                              |
| 5                    | 0                                  | 0                              |
| 4                    | 1                                  | 2                              |
| 3                    | 0                                  | 1                              |
| 2                    | 0                                  | 2                              |
| Less than 2          | 0                                  | 0                              |
| <b>Total Members</b> | <b>6</b>                           | <b>7</b>                       |

### ANNUAL GOVERNANCE STATEMENT

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

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

#### **Governance Framework**

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

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme for the Scottish Borders geographical area. The Council has acknowledged its responsibility for ensuring that there is a sound system of governance (incorporating the systems of internal control), and this is reflected in the Council's governance arrangements.



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- b) The Council has delegated its responsibilities as Scheme Manager, to the Pension Fund Committee. The Members of the Pension Fund Committee act as quasi-trustees and oversee the management of the Fund. The overall responsibility of ensuring there is a sound system of governance remains with the Chief Executive.
- c) The Pension Board meets jointly with the Pension Fund Committee and formalises the involvement of the employers and trade unions representing the membership. All members of the Pension Fund Committee and Pension Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval of the Pension Fund Business Plan covering the period 2023/24 – 2025/26, to improve planning and monitoring of the performance of the Fund and to demonstrate the “Myners Principle” relating to effective decision making. The Business Plan, which sets out required development and improvement actions, supports the delivery of the objectives of the Fund which are to deliver a high-quality pension service to members that is managed effectively, transparently and is compliant. Progress on actions are subject to monitoring by the Pension Fund Committee and Pension Board.
- e) The Fund appoints professional advisers and external service providers, covering investment advisory, custodian and actuarial services.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and Councillors embodied in procedural standing orders, financial regulations, Scheme of Delegation and Scheme of Administration. This is supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks and targets, and independent performance reviews of the Fund by the investment consultant and performance monitoring service provider. Sound investment practices are in place which follow approved investment principles, an appropriate investment strategy, and effective governance over investment decisions.
- g) The Fund follows a systematic approach to the management of risks.. The Pension Fund Risk Register has been significantly modified and consolidated during 2023/24 resulting in a clearer focus on the most significant risks. A summary of which is set out within the Risk Management section.
- h) The Director of Finance is responsible for ensuring the proper administration of the financial affairs of the Fund. This includes ensuring appropriate professional advice is sought and is given to the Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control. The Fund complies with the CIPFA Statement on “The Role of the Chief Financial Officer in Local Government 2016”.
- i) The Director – People, Performance and Change is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved Pension Administration Strategy.
- j) The Chief Officer Audit & Risk’s (Chief Audit Executive for the Fund) opinion is that there are generally sound systems of governance, risk management and internal control operating within the Scottish Borders Council Pension Fund during 2023/24, based on the delivery of an approved plan of systematic and continuous Internal Audit review in

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conformance with the Public Sector Internal Audit Standards.

- k) The Fund responds to findings and recommendations of External Audit and Internal Audit, as appropriate. The Pension Fund Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance. The latter change has recently been reflected in its remit in the Scheme of Administration.

### Review of Framework

The annual review of the effectiveness of the Fund's governance framework is informed by:

- the work of an officer assessment of the Fund's compliance with the best practice principles, details of which are set out in the Governance Compliance Statement 2023-24, the work of professional accountancy staff within the Council,
- the assurances arising from the work of Internal Audit, the details of which are set out in the Chief Officer Audit & Risk's Internal Audit Annual Assurance Report 2023/24, that is presented to the Pension Fund Committee, and
- the external auditors' reports.

### Improvement Areas of Governance

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

### Certification

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

**Councillor David Parker**  
**Chairman**  
**Pension Fund Committee**

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

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### ANNUAL GOVERNANCE COMPLIANCE STATEMENT

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

The Local Government Pension Scheme (Scotland) Regulations 2018 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles. The following table contains an assessment of the Fund's compliance with these principles and reflects the changes following the introduction of the Pension Fund Board.

| Principle        |   | Full Compliance | Comments  |
|------------------|---|-----------------|---|
| <b>Structure</b> |   |                 |   |
| A                | The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council. | Yes             | <p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the <b>Pension Fund Committee</b> (the 'Committee').</p> <p>The Committee comprises 6 elected Members.</p> <p>The Council's Scheme of Administration sets out the Committee's remit.</p> |

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|   |   |     |   |
|---|---|-----|---|
| B | Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee | Yes | <p>The <b>Pensions Fund Board</b> (the 'Board') formalises the involvement of the employers and trade unions representing the membership.</p> <p>The Fund's Board will consist of eight members (four employer representatives and four trade union representatives) covering all pension fund members.</p> <p>The Board constitution is in line with the regulations, a copy of which is included in the Fund's Governance Policy and Compliance Statement.</p> <p>The Board meets jointly with the Committee and the Board's Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The <b>Investment and Performance Sub-Committee</b> (the 'Sub-Committee') established under the Committee and its remit is set out in the Scheme of Administration. Membership of the Sub-Committee is seven elected Members from the Committee and two (nonvoting) members from the Board.</p> |
| C | Where a secondary committee or panel has been established, the structure ensures effective communication across both levels   | Yes | <p>Minutes of the Sub-Committee and any other Sub-Groups are submitted to the Committee for approval.</p> <p>Two members from the Board and all Members of the Committee are part of the Sub-Committee which has a remit to monitor investment</p>  |
| D | Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.   | Yes | <p>The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.</p>   |

**Committee Membership and Representation**

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|  |  |     |  |
|--|--|-----|--|
| A  | <p>All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>(i) employing authorities (including non-scheme employers, e.g., admitted bodies)</li> <li>(ii) scheme members (including deferred and pensioner scheme members),</li> <li>(iii) where appropriate, independent professional observers, and</li> <li>(iv) expert advisors (on an ad-hoc basis)</li> </ul> | Yes | <p>The Board and the Committee meet jointly ensuring employer and member (trade union) representation at meetings.</p> <p>The Investment Sub-Committee has two non-voting members from the Board.</p> <p>The Independent Investment Consultant, Finance and HR Officers also attend in an advisory capacity.</p>   |
| B  | <p>Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training. They are given full opportunity to contribute to the decision-making process, with or without voting rights.</p>  | Yes | <p>All members of the Committee and Board are covered equally by the Training Policy (as amended annually).</p> <p>The Board was established by Council on 2 April 2015. The Scheme of Administration for the Committee, and the Board Constitution, provide for joint meetings, with equal rights to receive papers and access meetings.</p>  |
| <b>Selection and role of lay members</b> |  |     |  |
| A  | <p>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.</p>   | Yes | <p>For elected Members this is part of the Council's Code of Governance along with the Members' induction programme.</p> <p>For all lay members, there is an induction course which explains the governance structure for the Fund, the roles and responsibilities of the Committee and Board members and the role of the advisers. In addition, the Fund's Training Policy provides for an annual training needs assessment</p> |

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|  |  |     |   |
|--|--|-----|---|
| B                                      | At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.   | Yes | Part of the Council's Code of Governance requires the declaration of Members' interests for all committees as a standard agenda item.       |
| <b>Voting</b>                          |  |     |   |
| A                                      | The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.   | Yes | This is set out in the Council's Scheme of Administration and the Board's Constitution  |
| <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 | Yes | Members' expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of training related expenses. |
| B                                      | Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.   | Yes | The training policy for all members of the Board and Committee is approved annually.  |

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|                                    |   |     |  |
|------------------------------------|---|-----|--|
| C                                  | The administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.  | Yes | The Annual Training Plan produced and implemented with logs of training attendance maintained.           |
| <b>Meetings (frequency/quorum)</b> |   |     |  |
| A                                  | An administering authority's main committee or committees meet at least quarterly   | Yes | The joint meetings of the Committee and Board are quarterly.   |
| B                                  | An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the main committee dates.   | Yes | The Investment Sub-Committee meets every four months between the joint Committee/Board meetings.         |
| C                                  | An administering authority who does not include lay members in their formal governance arrangements, must provide a forum on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Yes | As lay members attend the Board and Committee meetings this formally provides for stakeholder engagement |
| <b>Access</b>                      |   |     |  |
| A                                  | Subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee              | Yes | Papers sent to all Committee/Board members as detailed in the Scheme of Administration.                  |

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| Scope     |  |     |  |
|-----------|--|-----|--|
| A         | Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements  | Yes | The Scheme of Administration sets out the Committee as having a remit which covers all matters relating to the Council's role as Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pensions Regulator. |
| Publicity |  |     |  |
| A         | Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest if wanting to be part of those arrangements. | Yes | Scottish Borders Council Pension Fund has a standalone website with all governance documents and Fund information. A link is provided to Minutes and public papers available via the Council's website.  |

**Councillor David Parker  
Chairman  
Pension Fund Committee**

**David Robertson  
Chief Executive  
Scottish Borders Council**

**STATEMENT OF RESPONSIBILITIES**

**COUNCIL'S RESPONSIBILITIES**

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

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



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- Approve the Fund's Annual Accounts for signature.

### **DIRECTOR OF FINANCE RESPONSIBILITIES**

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

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

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

The Director of Finance has also:

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

I certify that the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2024 and the transactions of the Fund for the year then ended. The unaudited accounts were issued **on Date TBC**

Councillor David Parker  
Chair  
Pension Fund Committee

Suzanne Douglas CPFA  
Director of Finance  
Scottish Borders Council

**Scottish Borders Council Pension Fund**  
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**SECTION 3 - FINANCIAL STATEMENTS**

FUND ACCOUNT for year ending 31 March 2024

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

*Note 1-28 form part of the Financial Statements*

The Fund Account shows the payments to pensioners, contribution receipts from employers and

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scheme members, and the income, expenditure and change in market value of the Fund's investments.

### NET ASSETS STATEMENT as of 31 March 2024

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

*Notes 1 to 28 form part of these financial statements.*

The Net Assets Statement represents the value of assets and liabilities as at 31 March 2024 (excluding liability to pay pensioners).

The unaudited accounts were issued on XX June 2024 and the audited financial statements were authorised for issue by Suzanne Douglas on **Date TBC**

Suzanne Douglas CPFA  
Director of Finance  
Scottish Borders Council

## **1 DESCRIPTION OF THE FUND**

### **A) General**

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

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

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

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

Organisations participating in the Fund include:

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

### **B) Funding**

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

The Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions. For 2023/24 this was based on the valuation undertaken as at the 31 March 2020, as amended by specific changes, agreed by the Committee relating to an individual employer. The overall contribution rate was 18.5% for the Fund as a whole; however, employers' contribution rates during 2023/24 ranged from 18.5% to 22%.

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

### **C) Benefits**

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

The table below gives a summary of the scheme benefits:

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

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

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

### 2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2023/24 financial year and its position as at the 31 March 2024. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2023/24* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. Local authorities responsible for administering a Pension Fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2018 to publish a Pension Fund Annual Report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

The accounts have been prepared on a going concern basis.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Fund Account

#### Accruals Basis

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

#### Contributions Income

Normal contributions, both from members and employers, are accounted for on an accruals basis

## Scottish Borders Council Pension Fund

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

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

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

#### **Investment Income**

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

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

##### **ii) Dividend income**

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

##### **iii) Distributions from pooled funds**

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

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

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

#### **Benefits Payable**

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

#### **Taxation**

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

#### **Administration Expenses**

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

#### **Investment Management Expenses**

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

## Scottish Borders Council Pension Fund

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

#### **Net Assets Statement Valuation of Investments**

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

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the close of business on 31 March.
- Unquoted investments – directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Pooled investment vehicles – holdings in pooled investment vehicles, which are not traded on active markets are stated at bid price for funds with bid/offer spreads, or single price values where there are no bid/offer spreads, as at 31 March. Shares in other pooled arrangements have been valued at the latest available net asset value ('NAV'), determined in accordance with fair value principles.
- Private equity/debt and infrastructure assets are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

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

#### **Foreign Currency Transactions**

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

#### **Derivatives**

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

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

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

#### **Cash and Cash Equivalents**

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly

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liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of change in value.

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

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

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

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

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

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

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

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

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

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

### **Fund Liability**

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the



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year. Estimates and assumptions take into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the financial statements at 31 March 2024 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

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|                                  |   |  |
|----------------------------------|---|--|
| Portfolio of Level 3 assets held | Level 3 assets are those which do not have observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. Such valuations are prepared in accordance with the valuation principles of IFRS and CAAP. There is, however, a degree of estimation involved in the valuations. | The total assets held in Level 3 £357.9m and include Private Credit, Property, Infrastructure and Alternatives. Assurance has been obtained over the year end values. The value could move materially over the next few months depending on the market. Based on historical data and current market trends actual valuation could be between £395.7m and £320.0m |
|----------------------------------|---|--|

Level 3 assets are those which do not have observable market data. The valuations are provided by administrators of the funds and are validated by independent administrators. Such valuations are prepared in accordance with the valuation principles of IFRS and GAAP. There is, however, a degree of estimation involved in the valuations.

The total assets held in Level 3 £357.9m and include Private Credit, Property, Infrastructure and Alternatives. Assurance has been obtained over the year end values. The value could move materially over the next few months depending on the market. Based on historical data and current market trends actual valuation could be between £395.7 and £320.0m

## 6 EVENTS AFTER THE REPORTING DATE

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

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

There are no known events since 31 March 2024 which directly affect these accounts.

## 7 CONTRIBUTIONS RECEIVABLE

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

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

**8 TRANSFERS IN**

There were £1.2m group transfers into the scheme during 2023/24 and the total of £0m (2022/23: £0.742m) represents the total of transfer values in respect of individual members joining the scheme.

**9 BENEFITS PAYABLE**

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

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

| 2022/23      |                                    | 2023/24      |
|--------------|------------------------------------|--------------|
| £'000        |                                    | £'000        |
| 147          | Refunds to members leaving service | 75           |
| 1,735        | Individual Transfers               | -            |
| -            | Group Transfers                    | 1,257        |
| <b>1,882</b> |                                    | <b>1,332</b> |

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**11 MANAGEMENT EXPENSES**

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

**11(a) Investment Management Expenses**

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

| 2022/23                       | Total<br>£'000 | Management fees<br>£'000 | Transaction costs<br>£'000 |
|-------------------------------|----------------|--------------------------|----------------------------|
| Equities                      | 587            | 560                      | 27                         |
| Pooled Investments            | 2,073          | 1,890                    | 183                        |
| Private Equity/Infrastructure | 2153           | 2,132                    | 21                         |
| Property                      | 771            | 770                      | 1                          |
| <b>Total</b>                  | <b>5,583</b>   | <b>5,352</b>             | <b>232</b>                 |
| Custody fees                  | 73             |                          |                            |
| <b>Total</b>                  | <b>5,656</b>   |                          |                            |

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**12 INVESTMENT INCOME**

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

**13 OTHER FUND ACCOUNT DISCLOSURES**

**13(a) External Audit Costs**

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

**14 INVESTMENTS**

| Market Value at 31 March 2023 |                               | Market Value at 31 March 2024 |
|-------------------------------|-------------------------------|-------------------------------|
|                               | <b>Investment Assets</b>      |                               |
| 134,074                       | Equities                      | 152,237                       |
| 187,761                       | Pooled Equities               | 265,741                       |
| 165,909                       | Pooled Bonds                  | 130,849                       |
| 114,094                       | Pooled Other                  | 77,439                        |
| 114,749                       | Pooled Property Investments   | 104,604                       |
| 130,036                       | Private Equity/Infrastructure | 146,193                       |
| 18,694                        | Cash Deposits                 | 58,835                        |
| 817                           | Investment Income Due         | 626                           |

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|                |                                |                |
|----------------|--------------------------------|----------------|
| 55             | Amounts receivable for sales   | 574            |
| <b>866,189</b> | <b>Total Investment Assets</b> | <b>937,098</b> |
| (178)          | Amounts payable for purchases  | (256)          |
| <b>866,011</b> | <b>Net Investment Assets</b>   | <b>936,842</b> |

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

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

|                                  | Opening Market Value<br>1 April 2023<br>£'000 | Purchases & Derivative Payments<br>£'000 | Sales & Derivative Receipts<br>£'000 | Change to Market value during year<br>£'000 | Closing Market Value<br>31 March 2024<br>£'000 |
|----------------------------------|---|--|--------------------------------------|---|--|
| Equities                         | 134,074                                       | 27,781                                   | (27,010)                             | 17,392                                      | 152,237  |
| Pooled Investments               | 467,764                                       | 39,885                                   | (80,596)                             | 46,976                                      | 474,029  |
| Pooled Property Investments      | 114,749                                       | 20                                       | 21                                   | (10,186)                                    | 104,604  |
| Private Equity/Infrastructure    | 130,036                                       | 19,731                                   | (5,261)                              | 1,687                                       | 146,193  |
| <b>Other Investment Balances</b> |   |  |                                      |   |  |
| Cash Deposits                    | 18,694  |  |                                      | (103)                                       | 58,835   |
| Amount receivable for sales      | 55  |  |                                      | (156)                                       | 575  |
| Investment Income due            | 817   |  |                                      | (65)  | 626  |
| Amount Payable on Purchases      | (178)   |  |                                      |   | (256)  |
| <b>Net Investments</b>           | <b>866,011</b>                                |  |                                      | <b>55,545</b>                               | <b>936,842</b>                                 |

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

**Significant Transactions during the year:**

During the year, we made a partial redemption from LGIM Equities to fund a new Renewable Infrastructure investment with Quinbrook and Timberland investment with Nuveen. Following this, a partial redemption of the M&G Alpha Opportunities Fund was made to reinvest in LGIM and rebalance the Fund's strategy

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towards the target benchmark. The Fund's private credit mandates with Permira and Partners Group also continued to draw and invest capital over the year.

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

Investment management was undertaken on behalf of the Fund during the financial year by 11 firms of investment managers (this excludes the managers used through the collaboration with the Lothian Pension Fund ('LPF')) and these are shown below. The Fund has also during 2023/24, continued to make investments into Infrastructure, via collaborative working with the Lothian Pension Fund and directly with Macquarie and IFM. During 2023/24 we made 2 new Infrastructure investments in Quinbrook and Nuveen. As at 31 March 2024 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

| 2022/23<br>£'000 | %    |  | 2023/24<br>£'000 | %    |
|------------------|------|--|------------------|------|
| 31,138           | 3.6  | Baillie Gifford UK Equities                | 34,188           | 3.6  |
| 106,205          | 12.3 | Baillie Gifford Global Equities            | 121,374          | 13.0 |
| 95,028           | 11.0 | Morgan Stanley Pooled Fund-Global Equities | 112,727          | 12.0 |
| 92,733           | 10.7 | LGIM Pooled Fund-Passive Global            | 111,091          | 11.9 |
| 118,834          | 13.7 | M&G Pooled Fund-Diversified Income         | 87,125           | 9.3  |
| 47,075           | 5.4  | M&G Pooled Fund-Bonds                      | 55,741           | 5.9  |
| 13,664           | 1.6  | UBS Pooled Fund-Property                   | 12,346           | 1.3  |
| 101,188          | 11.7 | Blackrock Pooled Fund-Property             | 92,490           | 9.9  |
| 38,833           | 4.5  | LGT Pooled Fund-Alternatives               | 52,532           | 5.6  |
| 48,306           | 5.6  | Partners Group Pooled Fund-Private Credit  | 51,583           | 5.5  |
| 26,096           | 3.0  | Permira Pooled Fund-Private Credit         | 30,234           | 3.2  |
| 49,628           | 5.7  | Lothian Pension Fund Infrastructure Equity | 49,793           | 5.3  |
| 49,873           | 5.8  | Macquarie Pooled Fund-Infrastructure Debt  | 45,484           | 4.9  |
| 30,535           | 3.5  | IFM Pooled Fund -Infrastructure Debt       | 32,354           | 3.5  |
| 0                | 0    | Nuveen Global Timberland                   | 9,727            | 1.0  |
| 0                | 0    | Quinbrook Renewables                       | 9,024            | 1.0  |
| 16,875           | 1.9  | Internally Managed Cash & Investments      | 29,029           | 3.1  |
| <b>866,011</b>   |      |  | <b>936,842</b>   |      |

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

### Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Fund at 31 March 2024. Each of the investments comprises units in a managed fund.

|                                       | As at 31 March 2023 |           | As at 31 March 2024 |           |
|---------------------------------------|---------------------|-----------|---------------------|-----------|
|                                       | £'000               | % of Fund | £'000               | % of Fund |
| Morgan Stanley Global Brands Fund     | 95,028              | 11.0      | 112,728             | 12.0      |
| LGIM-Future World Global Equity Index | 92,733              | 10.7      | 111,091             | 11.9      |
| BlackRock - Long Lease Property Fund  | 101,188             | 11.7      | 92,490              | 9.9       |
| M&G Alpha Opportunities               | 118,834             | 13.7      | 87,125              | 9.3       |
| M&G Index Linked                      | 47,075              | 5.4       | 55,741              | 5.9       |

### Fund Performance

The total Fund return for the year was 9.1% with a relative return under benchmark of 12.3%. Over three years the Fund has generated an annualised return of 3.2% per annum, with a relative return under benchmark of 8.4% per annum. Further information on this is contained in Section 6 - Investments.

### 14(c) Stock Lending

The Fund may participate in the stock lending programme managed by its Global Custodian, Northern Trust. All loans are fully collateralised. As at 31 March 2024 stock with a market value of £5.5m was on loan.

### 14(d) Property Holdings

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

## 15 ANALYSIS OF DERIVATIVES

There were no derivatives held at 31 March 2024 or 31 March 2023.

## 16 FAIR VALUE BASIS OF VALUATION

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

- Level 1 - are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities and unit trusts. Prices are quoted at bid prices.



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2. Level 2 - are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
  
3. Level 3 - are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

**16(a) Fair Value Hierarchy**

| <b>Values at 31 March 2024</b>                                       | <b>Quoted market price</b> | <b>Using observable inputs</b> | <b>With significant unobservable inputs</b> | <b>Total</b>   |
|--|----------------------------|--------------------------------|---|----------------|
|  | <b>Level 1</b>             | <b>Level 2</b>                 | <b>Level 3</b>                              |                |
|  | <b>£'000</b>               | <b>£'000</b>                   | <b>£'000</b>                                | <b>£'000</b>   |
| <b>Financial assets at fair value through profit &amp; loss</b>      |                            |                                |   |                |
| Equities   | 152,237                    |                                |   | 152,237        |
| Pooled Investments   | 243,578                    | 111,050                        | 199,402                                     | 474,030        |
| Pooled Property Investments  |                            | 12,339                         | 92,265                                      | 104,604        |
| Private Equity/infrastructure  |                            |                                | 146,193                                     | 146,193        |
| Cash Deposits  | 58,834                     |                                |   | 58,835         |
| Other Investment income due  |                            |                                |   |                |
| Investment income due  | 626                        |                                |   | 626            |
| Amounts receivable for sales   |                            | 574                            |   | 574            |
| <b>Net Investment Assets</b>   | <b>455,275</b>             | <b>123,963</b>                 | <b>357,860</b>                              | <b>937,098</b> |
|  |                            |                                |   |                |
| <b>Financial liabilities at fair value through profit &amp; loss</b> |                            |                                |   |                |
| Payable for investment purchases                                     |                            | (256)                          |   | (256)          |
| <b>Total</b>   | <b>455,275</b>             | <b>123,707</b>                 | <b>357,860</b>                              | <b>936,842</b> |

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| Values at 31 March 2023  | Quoted market price | Using observable inputs | With significant unobservable inputs | Total          |
|--|---------------------|-------------------------|--------------------------------------|----------------|
|  | Level 1             | Level 2                 | Level 3                              |                |
|  | £'000               | £'000                   | £'000                                | £'000          |
| <b>Financial assets at fair value through profit &amp; loss</b>      |                     |                         |                                      |                |
| Equities   | 134,074             | 0                       | 0                                    | 134,074        |
| Pooled Investments   | 260,937             | 93,626                  | 113,201                              | 467,767        |
| Pooled Property Investments  | 0                   | 13,563                  | 101,186                              | 114,749        |
| Private Equity/infrastructure  | 0                   | 0                       | 130,036                              | 130,036        |
| Cash Deposits  | 18,694              | 0                       | 0                                    | 18,694         |
| Investment Income due  | 817                 | 0                       | 0                                    | 817            |
| Amounts receivable for sales   | 0                   | 55                      | 0                                    | 55             |
| <b>Net Investment Assets</b>   | <b>414,522</b>      | <b>107,244</b>          | <b>344,423</b>                       | <b>866,189</b> |
|  |                     |                         |                                      |                |
| <b>Financial liabilities at fair value through profit &amp; loss</b> |                     |                         |                                      |                |
| Payable for investment purchases                                     | 0                   | (178)                   | 0                                    | (178)          |
| <b>Total</b>   | <b>414,522</b>      | <b>107,066</b>          | <b>344,423</b>                       | <b>866,011</b> |

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

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

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

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

|                          | Market Value 31 March 22 | Transfer into level 3 | Purchases during year & derivative payments | Sales during the year and derivative receipts | Unrealised gains/(losses) | Realised gains/(losses) | Market Value 31 March 2023 |
|--------------------------|--------------------------|-----------------------|---|---|---------------------------|-------------------------|----------------------------|
|                          | £'000                    | £'000                 | £'000                                       | £'000   | £'000                     | £'000                   | £'000                      |
| Overseas Venture Capital | 9,904                    |                       | 11,337                                      | (2,150)                                       | 821                       | 1,671                   | <b>21,583</b>              |
| Overseas Equity Funds    | 67,833                   |                       |   | (30,000)                                      | (6,833)                   | 7,750                   | <b>38,800</b>              |
| Private Equity Funds     | 46,993                   |                       | 33,290                                      | (6,769)                                       | 1,234                     | (346)                   | <b>74,402</b>              |
| UK Property              | 121,317                  |                       |   | (458)   | (19,673)                  |                         | <b>101,186</b>             |
| UK Venture Capital       | 76,933                   |                       | 32,119                                      | (1,201)                                       | 601                       |                         | <b>108,452</b>             |
| Overseas Equities        | 690                      |                       |   | (215)   | 140                       | (615)                   | <b>0</b>                   |
| <b>Total</b>             | <b>323,720</b>           | <b>0</b>              | <b>76,746</b>                               | <b>(40,793)</b>                               | <b>(23,710)</b>           | <b>8,460</b>            | <b>344,423</b>             |

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

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

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

### Sensitivity of Assets Valued at Level 3

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

|                          | Assessed valuation range (+/-) | Value 31 March 2024 | Value on increase | Value on decrease |
|--------------------------|--------------------------------|---------------------|-------------------|-------------------|
|                          | %                              | £'000               | £'000             | £'000             |
| Overseas Equity Funds    | 13.5                           | 41,964              | 47,629            | 36,299            |
| UK Property Funds        | 8                              | 92,265              | 99,646            | 84,884            |
| Private Credit Funds     | 11                             | 77,439              | 85,957            | 68,921            |
| Overseas Venture Capital | 15                             | 32,892              | 37,826            | 27,958            |
| UK Venture Capital       | 10                             | 113,300             | 124,630           | 101,970           |
| <b>Total</b>             |                                | <b>357,860</b>      | <b>395,688</b>    | <b>320,032</b>    |

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**17 CLASSIFICATION OF FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

**Risk and Risk Management**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

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

### **Market Risk**

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

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

### **Other Price Risk**

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

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

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

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

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

| <b>Asset Type</b>      | <b>Potential Market Movement<br/>%</b> |
|------------------------|--|
| <b>UK Equities</b>     | <b>20.5</b>                            |
| <b>Global Equities</b> | 20.5                                   |
| <b>UK Bonds</b>        | 8.3                                    |
| <b>Property</b>        | 8.6                                    |
| <b>Alternatives</b>    | 13.0                                   |
| <b>Cash</b>            | 1.6                                    |

Potential price changes are determined based on the observed historical volatility of asset class returns. The

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potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

| Asset Type          | Value as at 31 March 24<br>£'000 | +/-%<br>Change * | Value on<br>Increase £'000 | Value on<br>Decrease<br>£'000 |
|---------------------|----------------------------------|------------------|----------------------------|-------------------------------|
| UK Equities         | 34,188                           | 20.5%            | 41,196                     | 27,179                        |
| Global Equities     | 345,193                          | 20.5%            | 415,957                    | 274,428                       |
| UK Bonds            | 55,741                           | 8.3%             | 60,368                     | 51,115                        |
| Property            | 104,836                          | 8.6%             | 113,852                    | 95,820                        |
| Alternatives        | 368,141                          | 13.0%            | 416,000                    | 320,283                       |
| Cash                | 28,743                           | 1.6%             | 29,203                     | 28,283                        |
| <b>Total Assets</b> | <b>936,842</b>                   |                  | <b>1,076,576</b>           | <b>797,108</b>                |

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

### Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2023 and 31 March 2024 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| Asset Type                   | As at 31 March 2023<br>£'000 | As at 31 March 2024<br>£'000 |
|------------------------------|------------------------------|------------------------------|
| Cash and Cash<br>Equivalents | 8,659                        | 32,879                       |



**Interest rate risk sensitivity analysis**

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

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

|                           |                                 | Effect on Asset Values               |  |
|---------------------------|---------------------------------|--------------------------------------|--|
| Asset Type                | Value as at 31 March 2024 £'000 | Favourable Rate Move + 100 BPS £'000 | Unfavourable Rate Move – 100 BPS £'000 |
| Cash and Cash Equivalents | 32,879                          | 329                                  | (329)                                  |

**Currency Risk**

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

The following table summarises the Fund's currency exposure at 31 March 2024:

| Currency exposure by asset type | As at March 2024 £'000 |
|---------------------------------|------------------------|
| Overseas Equities               | 117,988                |
| Overseas Fixed Income Funds     | 87,115                 |
| Overseas Equity Funds           | 265,741                |
| Overseas venture capital        | 32,892                 |
| <b>Total</b>                    | <b>503,736</b>         |

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### Currency risk – sensitivity analysis

| Asset Type               | Value as at 31 March 2024<br>£'000 | +/-% Change | Value on Increase<br>£'000 | Value on Decrease<br>£'000 |
|--------------------------|------------------------------------|-------------|----------------------------|----------------------------|
| Overseas Equities        | 117,988                            | 11.2        | 131,166                    | 104,810                    |
| Overseas Fixed Income    | 87,115                             | 8.3         | 94,355                     | 79,875                     |
| Overseas Equity Funds    | 265,741                            | 9.6         | 291,242                    | 240,240                    |
| Overseas venture capital | 32,892                             | 9.3         | 35,937                     | 29,847                     |
| <b>Total Assets</b>      | <b>503,736</b>                     |             | <b>552,700</b>             | <b>454,772</b>             |

### Credit Risk

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

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

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2024, including current account cash, was £4.1m (31 March 2023: £2.2m). This was held with the following institutions:

|                        | Rating | Balance at 31 March 2023 | Balance at 31 March 2024 |
|------------------------|--------|--------------------------|--------------------------|
| Bank Current Accounts  |        |                          |                          |
| Royal Bank of Scotland | A+     | 2,160                    | 4,136                    |
| Northern Trust         | AA     | 6,499                    | 28,743                   |
| <b>Total</b>           |        | <b>8,659</b>             | <b>32,879</b>            |

### **Liquidity Risk**

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2024, the Fund's illiquid assets under this definition are some of the Property fund of funds holdings and the infrastructure holdings.

## **19 FUNDING ARRANGEMENTS**

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

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

### **2023 Actuarial Valuation**

The 2023 Actuarial Valuation was undertaken for the Fund as at 31 March 2023 (full report available on the Fund's website) [Actuarial Valuation Report 2023](#) The Actuarial Valuation was completed during the financial year 2023/24 by the Fund's actuaries, Hymans Robertson. It has been undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018.

The funding level of the Fund as at the 31 March 2023 was 134%, compared to the 31 March 2020 valuation of 110% and this corresponded to a surplus of £217m. The following table summarises the funding position:

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

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

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The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two.

The detailed Actuarial Valuation has been carried out for the Fund as at 31 March 2023.

### Valuation Assumptions

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement, or withdrawal from service.

### Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2023) are:

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

### Demographic Assumptions

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

| Life Expectancy after age 65 |        | 31 March 2020 | 31 March 2023 |
|------------------------------|--------|---------------|---------------|
| Pensioners                   | Male   | 20.9          | 20.6          |
|                              | Female | 23.5          | 23.3          |
| Non-Pensioners               | Male   | 21.9          | 21.2          |
|                              | Female | 25.4          | 24.9          |

**Commutation Assumption**

It is assumed that future retirees will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules.

**50:50 option**

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

**20 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

In addition to the Actuarial Valuation, the Fund's Actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26 and calculated in line with IAS 19 assumptions.

This uses the same base data as the Actuarial Valuation rolled forward to the current financial year, taking account of changes in membership numbers, and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

The actuarial present values, calculated in line with IAS 19, are set out in the table below.

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

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

The McCloud judgement, which relates to age discrimination arising from public sector pension scheme transition arrangements has been included in the obligations figures above. The obligations also include a calculation for the Guaranteed Minimum Pension ('GMP') equalisation which guidance from Treasury is awaited. The GMP reconciliation exercise is still ongoing but is unlikely to be significant, no allowance has therefore been made in the obligations. The allowance included in the obligations is used for statutory accounting purposes by the Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed below:

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

As noted above, liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2023 Actuarial Valuation (see Note 19) because IAS 19 stipulates a discount rate, rather than a rate that reflects the market rate for investment returns on the Fund's assets.

## 21 CURRENT ASSETS

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

**22 CURRENT LIABILITIES**

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

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

AVCs are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2024 was £2.952m (2023 £2.285m). During the year contributions in totalled £1.013m, while payments out of the AVC fund totalled £0.53m. In accordance with regulation 4(2)(b) of the Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SI 2010/233), AVCs are not included in the Pension Fund balance sheet.

**24 AGENCY SERVICES**

There are no agency service agreements in place.

**25 RELATED PARTY TRANSACTIONS**

During the year, the Fund had an average balance of £1.4m (2023: £0.7m) of cash administered by Scottish Borders Council within separate external banking arrangements. The Council charged the Pension Fund £0.084 (2023 £0.320m) in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Fund balance due to Scottish Borders Council by the Fund at the balance sheet date and disclosed in the net assets statement was as follows:

| As at 31 March                                | 2023 £'000   | 2024 £'000   |
|---|--------------|--------------|
| <b>Due (to)/from Scottish Borders Council</b> | <b>(253)</b> | <b>(216)</b> |

**Governance**

Five members of the Pension Fund Committee were active members of the Pension Fund as at 31 March 2024. Two members of the Pension Fund Committee were in receipt of pension benefits from the Fund.

**26 KEY MANAGEMENT PERSONNEL**

The key management personnel, of the Fund during 2023/24 was Scottish Borders Council Director of Finance. Total remuneration payable is set out below.

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

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

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

**27 CONTINGENT ASSETS**

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

**28 CONTINGENT LIABILITES**

**Guaranteed Minimum Pension Equalisation**

On 26 October 2018, the High Court ruled that Guaranteed Minimum Pensions (GMP) should be equalised between men and women to address the discrepancies in members' benefits arising from the contracting out of the additional state pension between 17 May 1990 and 6 April 1997. In order to progress with the GMP equalisation work the fund must first complete the GMP reconciliation actions. An allowance for full GMP indexation was included within the 31 March 2023 funding valuation position and **therefore the allowance is automatically included within the 31 March 2024 accounts.**

**Guaranteed Minimum Pension Reconciliation**

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



**Goodwin**

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

## SECTION 4 – ADMINISTRATION

### ADMINISTRATION STRATEGY

The Pension Administration Strategy approved on 4 March 2024 sets out the procedures and performance standards required by both Scottish Borders Council, as Administering Authority and the employers with the Fund. The procedures and performance standards are agreed to ensure the efficient and effective administration of the pension scheme. The strategy aims to ensure that.

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

### ADMINISTRATION PERFORMANCE

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

The performance for the year to 31 March 2024 is set out below.

**Employer Performance Measures Service Standards**

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

### Contribution Payments

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

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

There were three late payment during the year, two of these payments were received within three banking days of the required date The other month was in excess of one month late. Conversations have taken place with the employer to remind them of the requirement to ensure payment is received by the due date and a follow up letter issued. We will continue to monitor this employer going forward and take appropriate action should this occur again in the future.

### Administering Authority Performance Measures Service Standards

| Standard                | Volume | Target  | % age Met |
|-------------------------|--------|---------|-----------|
| Estimates -Transfers In | 258    | 20 days | 80%       |
| Estimates -Transfer Out | 146    | 20 days | 74%       |
| Estimate -All Other     | 1,345  | 10 days |           |

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

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| Type of Query  | Volume        | Target       | % age Met |
|--|---------------|--------------|-----------|
| Phone Calls logged   | 94            | 5 days       | 100%      |
| Phone Calls to team  | 3,174         | Not measured |           |
| Emails to <a href="mailto:pensions@scotborders.gov.uk">pensions@scotborders.gov.uk</a> mailbox | 8,237         | Not measured |           |
| Emails to team members directly  | 4,035         | Not measured |           |
| Correspondence via Altair  | 3,725         | Not measured |           |
| Correspondence via Members Self Service  | 2,066         | Not measured |           |
| <b>Total</b>   | <b>21,331</b> |              |           |

### Other Measures

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

The ninth liaison meeting, held virtually, with all Admitted and Scheduled Bodies was held during 2023/24 and afforded the employers the chance to ask questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

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

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### Key Administration Tasks

| Task  | Total received |
|---|----------------|
| New entrants  | 749            |
| Early leavers   | 523            |
| Retirements   | 385            |
| Deaths in service   | 2              |
| Deaths in deferment   | 6              |
| Deaths in retirement  | 131            |
| New Widow(ers), Child Pensions  | 44             |
| Estimates   | 1,345          |
| Pension credit members  | 0              |
| Pay all Pensioners on 15 <sup>th</sup> of the month or prior working day when 15 <sup>th</sup> is a non-banking day | 100% achieved  |

## FUND MEMBERSHIP

### Member Self Service Statistics

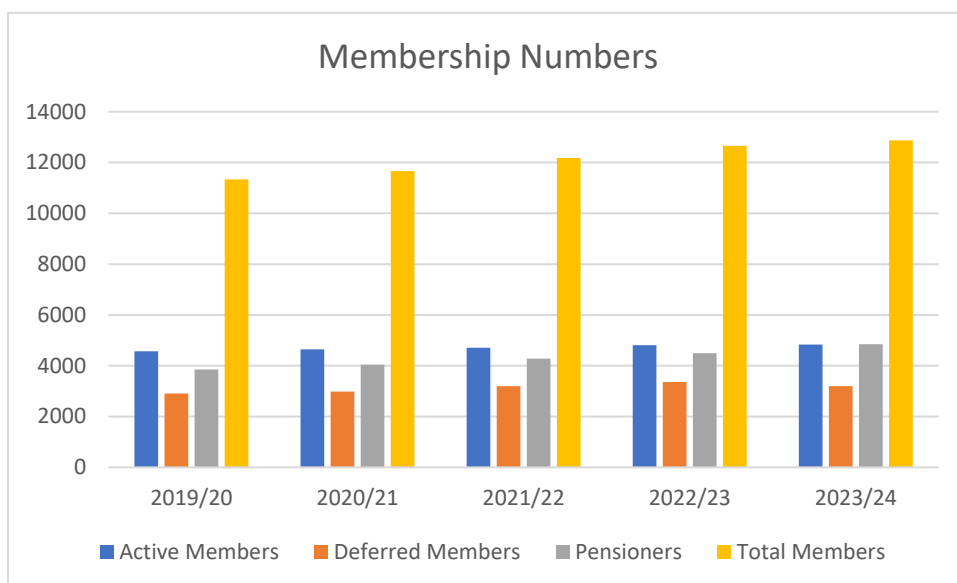
| Task                     | Total Active | Target | % Completed in target |
|--------------------------|--------------|--------|-----------------------|
| Active Members           | 4,836        | 100%   | 30.13%                |
| Deferred Members         | 3,195        | 100%   |                       |
| Benefit calculations run | 22,569       |        |                       |

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

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

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

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

| Membership Details as at 31 March 2024    | Number of Contributors | Pensioners   | Deferred Members | Total         |
|---|------------------------|--------------|------------------|---------------|
| <b>Scheduled Bodies:</b>                  |                        |              |                  |               |
| Scottish Borders Council                  | 4,365                  | 4,436        | 2,894            | 11,695        |
| Borders College                           | 164                    | 129          | 107              | 400           |
|   | <b>4,529</b>           | <b>4,565</b> | <b>3,001</b>     | <b>12,095</b> |
| Scottish Borders Housing Association      | 48                     | 122          | 71               | 241           |
| LIVE Borders                              | 93                     | 85           | 84               | 262           |
| Jedburgh Leisure Facilities Trust         | 2                      | 2            | -                | 4             |
| Amey Community Limited (TUPEE Staff only) | 2                      | 11           | 1                | 14            |
| CGI (TUPEE Staff only)                    | 23                     | 13           | 8                | 44            |
| South of Scotland Enterprise              | 139                    | 4            | 10               | 153           |
|   | <b>323</b>             | <b>237</b>   | <b>174</b>       | <b>718</b>    |
| Gala Youth Project                        | -                      | 1            | -                | 1             |
| Scottish Borders Careers                  | -                      | 3            | 1                | 4             |

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|                                 |              |              |              |               |
|---------------------------------|--------------|--------------|--------------|---------------|
| L&B Community Justice Authority | -            | 3            | 6            | 9             |
| BC Consultants                  | -            | 19           | 11           | 30            |
| Others                          | -            | 20           | 2            | 22            |
|                                 | -            | <b>46</b>    | <b>20</b>    | <b>66</b>     |
| <b>Total</b>                    | <b>4,836</b> | <b>4,848</b> | <b>3,195</b> | <b>12,879</b> |

### COMMUNICATIONS POLICY AND PERFORMANCE

#### COMMUNICATION POLICY

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

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

The objective of this policy is to ensure that: -

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

The communication methods utilised are: -

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

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

The Fund has deployed a secure portal for all active and deferred members of the LGPS, which provides direct access for scheme members to view personalised pension data and further enhances the communications with

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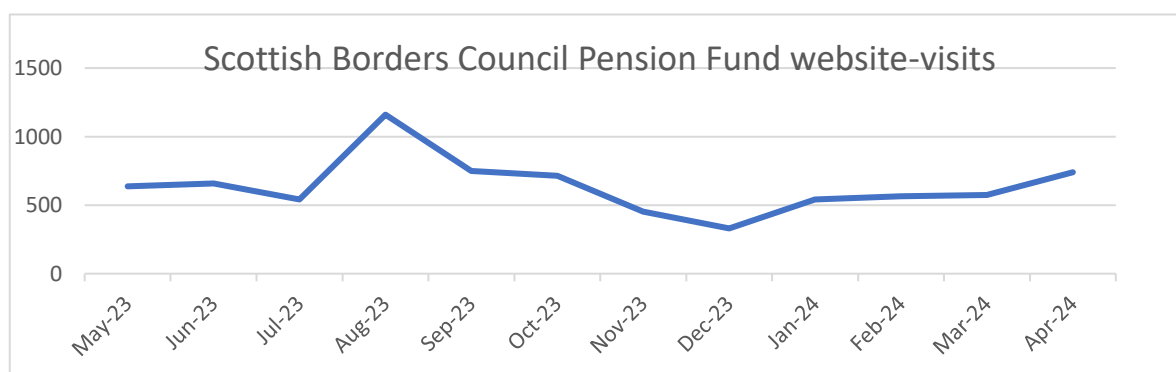
active and deferred scheme members in a modern digital manner. The portal also allows members to carry out the following: -

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

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

Scheme members can arrange to visit our offices to speak to a member of our Pensions Administration Team, they can arrange to pre-book appointments by e-mail or telephone.

The introduction of the Pension Fund website in June 2018 has allowed members to access information and documents. The tables below details the number of visits to the site over the past 12 months up to end of April 2024. The scheme website can be found at [www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)



### COMMUNICATION PERFORMANCE

The following communications took place during 2023/24

- The Employer Liaison meeting was held as a virtual meeting due to the continued hybrid working practices. In addition to the meeting an email was issued to all employers providing the details of the requirements for the year end reporting for the scheme and action to be taken in preparation for the coming years' payroll
- Issuing the first edition of our Pension Fund Newsletter in March 2024
- Deployment of Member Self Service with emails issued to all active and deferred members to encourage sign up and provide access to the Annual Benefit Statement
- Annual Benefit Statements were issued in hard copy format to all deferred members including information on how to sign up for the Member Self Service portal and newsletter.
- Information continues to be posted within the Scottish Borders Council Pension Fund website; this included the following: -

- Notice that we were unable to issue payslips and guidance on how to sign up for online access to payslips
- Information regarding Pensions Increase
- Details of Shared Cost AVC

## SECTION 5 - FUNDING

### FUNDING STRATEGY STATEMENT

The Funding Strategy Statement sets out its purpose and objectives as

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

The aims and purpose reflect those of the Fund.

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

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

### ACTUARIAL STATEMENT

The Local Government Pension Scheme regulations require each Administering Authority to obtain an Actuarial Valuation of the assets and liabilities of the Fund every three years. The last valuation was at 31 March 2020 and the latest valuation has been completed as at 31 March 2023. The regulations require each Administering Authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out their Funding Strategy.

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

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

#### **Actuarial Valuation 2023**

The Actuarial Valuation as at the 31 March 2023 was undertaken during 2023. The Actuarial Valuation was undertaken in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018. A copy of the report is available via the Council's Pension Fund website [Actuarial valuation report - 2023](#)



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

Note 19 to the Statement of Accounts contains details of the outcome and assumptions used in the 2023 Valuation and the impact that it had on employer contribution rates.

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

### Employer Contribution Rates

As part of the 2023 Actuarial Valuation, the Actuary certified the primary rate at 21.9%. However, in agreement with the Actuary a secondary rate of 3.9% has been deducted to allow the common rate of contribution as 18% of payroll for the next two years with an increase of 0.5% on 1 April 2023. The secondary rate will reduce the surplus of £63m over 50 years.

Individual and pooled employers' rates vary from the common contribution rate (18.5%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e., the rate which employers in the Fund pay):

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

### Valuation for Statutory Accounts at 31 March 2024

Note 20 to the Financial Statement contains the present Actuarial Valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows an increased net asset position of £144m (£135m 31 March 2023) The present value of the defined benefit obligations increased from £731m to £793m.

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

[Scottish Borders Council Pension Fund](#)

## SECTION 6 – INVESTMENT

### STATEMENT OF INVESTMENT PRINCIPLES

Following the 2023 Actuarial Valuation which reported a funding position of 134% and investment target returns of 7.7%, the Fund undertook a review of its Statement of Investment Principles and its target asset allocation.

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

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

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

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

The primary objective of the Fund which frames key considerations when agreeing the SIP is to provide for members' pension and lump sum benefits on their retirement or for their dependents' benefits on death before or after retirement, on a defined benefits basis.

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

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

## INVESTMENT STRATEGY

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

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

The Pension Fund Committee will, as far as is practicable and as an aid to long term stability, seek to maintain a positive ratio of assets to liabilities at each Actuarial Valuation.

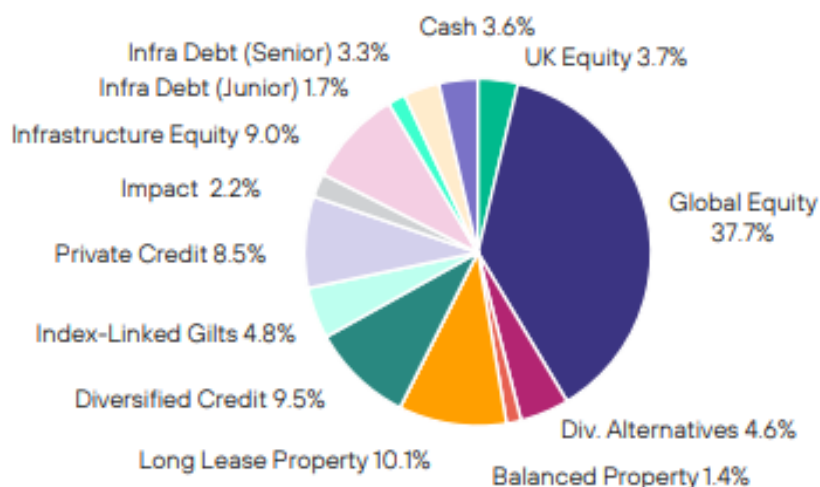
The Fund now has negative cash flow as there are less actively contributing members compared to members receiving pensions. It however also has deferred members who are presently neither contributing to nor receiving benefits from the Fund.

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

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

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

A full Investment Strategy will be carried out following the results of the Actuarial Valuation as at 31 March 2023 and to reflect any subsequent updates in investment strategy following this. The review is scheduled to take place later in-2024. Asset allocation as at 31 March 2024 is shown below:



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The approved strategic asset allocation maintained the allocation for equities but approved the movement of the passive equities into a ESG focused passive fund and the movement of Baillie Gifford Global equities into their Paris Aligned Global Equity fund. The review also introduced an allocation to Residential Housing, increased the allocation to Long Lease Property and increased the allocation to Infrastructure. These changes were made to increase the alignment of investments with liabilities and to increase the income generating investments to ensure funds are available to pay liabilities as they become due. The Fund has made good progress on the implementation of these changes with the full funding of the new ESG passive equity fund with LGIM and has fully implemented the increased allocation to Long Lease Property with BlackRock. The infrastructure allocation has also been fully funded with IFM. Post-reporting period, in May 2024, the Fund's commitment to the Residential Housing allocation was drawn down.

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

The strategic asset allocation also diversifies the risk exposure in its use of managers. The Fund currently has 13 firms of investment Managers with 19 funds (this excludes the managers used through the collaboration with the Lothian Pension Fund ('LPP')). This number includes the Balanced Property fund with UBS which is currently being wound down following the decision to terminate the asset class as part of the strategy review in 2021, and excludes the Residential Housing fund with CBRE which was funded post-reporting period.

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Shown below are the current investment managers for the Fund.



BLACKROCK



Morgan Stanley



**nuveen**

A TIAA Company

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



ALINDA

Brookfield



DALMORE CAPITAL



KKR



OAKTREE

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The implementation of the Investment Strategy commenced in June 2021 saw the appointment of LGIM for ESG Passive Equity and IFM for Infrastructure. The table shows the position as at 31 March 2024 against the Strategy:

| <b>Asset Class</b>          | <b>Asset Allocation at 31/3/23 %</b> | <b>Asset Allocation at 31/3/24 %</b> | <b>Strategic Benchmark %</b> |
|-----------------------------|--------------------------------------|--------------------------------------|------------------------------|
| UK Equity                   | 4.0                                  | 3.7                                  | 3.5                          |
| Global Equity               | 34.0                                 | 37.7                                 | 36.5                         |
| Bonds                       | 19.0                                 | 14.3                                 | 16.0                         |
| Alternatives                | 13.0                                 | 13.1                                 | 14.0                         |
| Property                    | 13.0                                 | 11.4                                 | 14.5                         |
| Infrastructure <sup>1</sup> | 15.0                                 | 16.1                                 | 15.5                         |
| Cash                        | 2.0                                  | 3.6                                  | 0.0                          |
| Total                       | 100.0                                | 100.0                                | 100.0                        |

**Investment Manager Allocation**

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

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Each external investment manager is appointed to manage a specified % allocation of the Fund's total investment assets. The breakdown of the Fund's assets by investment manager, mandate type and asset class at 31 March 2023 and 31 March 2024 are shown in the table below (this summarises the managers used through the collaboration with the Lothian Pension Fund (LPF)).

| Manager         | Mandate Type                           | 31 Mar 2023 (%) | 31 Mar 2024 (%) |
|-----------------|--|-----------------|-----------------|
| Baillie Gifford | UK Equities                            | 3.6             | 3.7             |
| Baillie Gifford | Global Equities                        | 12.3            | 13.2            |
| Morgan Stanley  | Pooled Fund – Global Equities          | 11.0            | 12.3            |
| LGIM            | Pooled Fund – Global Passive Equities  | 10.7            | 12.1            |
| M&G             | Pooled Fund – Diversified Income       | 13.7            | 9.5             |
| M&G             | Pooled Fund – Bonds                    | 5.4             | 4.8             |
| UBS             | Pooled Fund – Property                 | 1.6             | 1.4             |
| BlackRock       | Pooled Fund – Property                 | 11.7            | 10.1            |
| LGT             | Pooled Fund - Alternatives             | 4.5             | 4.6             |
| Partners Group  | Pooled Fund – Private Credit           | 5.6             | 5.4             |
| Permira         | Pooled Fund – Private Credit           | 3.0             | 3.1             |
| LPF             | Infrastructure Equity                  | 5.7             | 5.4             |
| IFM             | Infrastructure                         | 3.5             | 3.5             |
| Macquarie       | Pooled Fund – Infrastructure Debt      | 5.8             | 5.0             |
| Quinbrook       | Pooled Fund – Renewable Infrastructure | -               | 1.1             |
| Nuveen          | Pooled Fund – Timberland               | -               | 1.1             |
| Cash            | Internally Managed Cash & Investments  | 1.9             | 3.6             |

### Holdings

The table below over the top 20 direct holdings at 31 March 2024. All holdings are held with the Baillie Gifford Global and UK equities' portfolios.

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| Company              | Market Value of Holding<br>£ m | Company           | Market Value of Holding<br>£ m |
|----------------------|--------------------------------|-------------------|--------------------------------|
| Microsoft            | 5.0                            | TSMC              | 2.1                            |
| Meta Platforms Inc   | 4.6                            | NVIDIA            | 2.1                            |
| Amazon.com           | 4.5                            | Doordash Inc      | 2.0                            |
| Elevance Health Inc  | 3.8                            | Analog Devices    | 1.5                            |
| Moody's              | 3.2                            | Block Inc         | 1.5                            |
| Mastercard           | 2.8                            | AstraZeneca       | 1.5                            |
| CRH                  | 2.5                            | The Trade Desk    | 1.4                            |
| Service Corp.Intl.   | 2.4                            | Bunzl             | 1.4                            |
| Alphabet Inc Class C | 2.4                            | AJ Gallagher & Co | 1.4                            |
| Prosus N.V.          | 2.4                            | Atlas Copco B     | 1.4                            |

## INVESTMENT PERFORMANCE

### Market Context

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

### Equity markets

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



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### Bonds

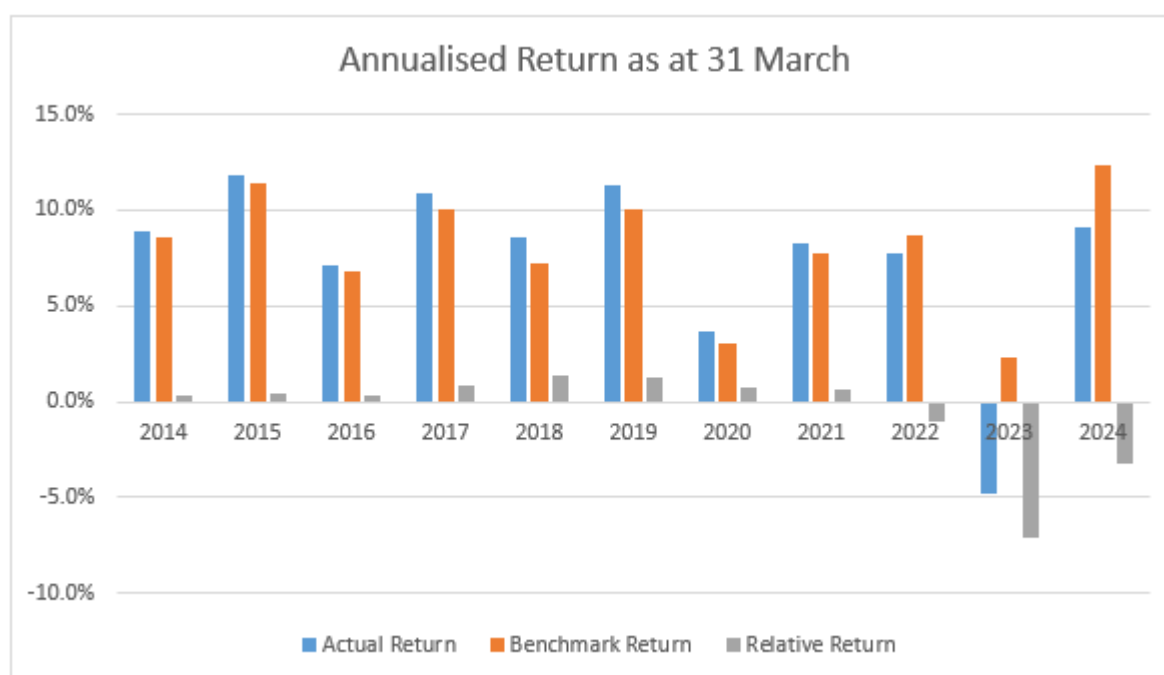
Credit market performance was mixed as nominal and index-linked gilt returns were negative over the period, whereas Global high yield and UK IG Credit delivered positive returns. Credit spreads continued to narrow, as higher all-in yields attracted investor inflows, and economic data improved. UK investment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

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

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

### FUND PERFORMANCE

The Fund's investment returns delivered a return of 9.1% (-4.8% 2022/23) against a benchmark of 12.3% (2.3% 2022/23) for the year to 31 March 2024. Overall, the Fund's assets increased by £72m from 31 March 2023. The Fund's assets delivered a positive absolute return of 3.7% over the quarter, underperforming the composite objective by 1.0%. • Positive absolute performance was again driven by the Fund's global equity mandates as equity markets continued to benefit from increased investor optimism around a "no landing" scenario and the performance of the "Magnificent 7" technology stocks which dominate the market. Relative underperformance was driven by the Fund's Property and Infrastructure mandates as they continue to be impacted by the uncertainty over the future path of interest rates. The performance of the mandates remains in line with the wider UK Commercial Property and Infrastructure Markets. • We estimate the Fund's funding position improved, as the value of the Fund's assets increased, whilst the value placed on the Fund's liabilities decreased due to the rise in gilt yields



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

The Fund delivered a return of 9.1% against a benchmark of 12.3% for the year.

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

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| Return on Investment as at 31/03/2024 | 1 year rolling return |             | 3 year rolling return |             |
|---------------------------------------|-----------------------|-------------|-----------------------|-------------|
|                                       | Fund %                | Benchmark % | Fund %                | Benchmark % |
| <b>Total Fund</b>                     | <b>9.1</b>            | <b>12.3</b> | <b>3.2</b>            | <b>8.4</b>  |
| Global Equities                       | <b>18.5</b>           | 21.5        | <b>4.9</b>            | 11.1        |
| UK Equities                           | <b>6.2</b>            | 8.4         | <b>1.8</b>            | 8.1         |
| Bonds                                 | <b>6.2</b>            | 3.7         | <b>-0.3</b>           | -0.2        |
| Alternatives                          | <b>5.7</b>            | 8.8         | <b>5.2</b>            | 7.5         |
| Property                              | <b>-3.5</b>           | 6.2         | <b>-0.5</b>           | 11.0        |
| Cash                                  | -                     | -           | -                     | -           |

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

The key driver of the underperformance of the Fund's property mandates was in line with that of the previous reporting period – rising interest rates as central banks continued with their attempts to tackle persistent inflationary pressures. This environment resulted in a fall in the capital values of the underlying property assets within the managers' respective portfolios. Equity underperformance can be largely attributed to the underperformance of the Fund's Baillie Gifford mandates as their growth-style investment approach continued to underperform in the rising interest rate environment. The junior infrastructure debt mandate also notably underperformed over the period. This underperformance was driven by specific factors which impacted individual investments within the portfolio, rather than wider market trends.



### RESPONSIBLE INVESTMENT

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

The Fund approved a revised Statement of Responsible Investment Policy (the 'Policy') on 17 March 2022 setting out the approach to responsible investment and arrangements to monitoring manager performance against the principles

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of the policy on an annual basis. The key principles within the Policy are:

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

The approved Policy also approved 6 key priorities when it comes to responsible investment. These are.

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

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

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

The Fund actively investigates opportunities to increase investment in sustainable funds. Two clear examples of this were the recent allocations to a Timberland Fund and a Renewable Energy Infrastructure Fund focused in the UK.



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

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



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

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

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities.
- Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goals of limiting global average temperature increase to well below 2°C above pre-industrial levels.
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enable investors to assess the robustness of companies' business plans against a range of climate and improve investment decision making. As part of this the Fund became a supporter of TCFD in H2 2023.

## CONTACTS

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

Pensions Team

Telephone 01835 – 825052/3

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

or visit Scottish Borders Council Pension Fund website at:

[www.scottishborderscouncilpensionfund.org](http://www.scottishborderscouncilpensionfund.org)

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

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