

# Scottish Borders Council Pension Fund

2024/25 Annual Audit Report



Prepared for Scottish Borders Council Pension Fund Committee and the Controller of  
Audit

September 2025

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# Key messages

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## Audit of the annual report and accounts

- 1 The audit opinions on the annual report and accounts are unqualified and free from material misstatement.
- 2 There was one significant audit adjustment arising during the audit. Investment assets were overstated by £34.7 million as a result of a currency exchange error. Subsequent audit procedures confirmed this was an isolated error and this was amended in the financial statements.

## Wider scope and Best Value audit

### Financial Management and Sustainability

- 3 The Pension Fund's investments increased in value by £22 million in year to £959 million. This reflected market movements impacting fund performance with a return on investments of 2.9%. This was below the benchmark of 5.9% primarily as a result of relative underperformance in two equity mandates.
- 4 The net asset position was £959 million. The investment strategy was updated in year, and the Pension Fund has started moving towards the new strategic asset allocation. Planned divestments have begun in alternatives and long lease property mandates. This work will continue into 2025/26.
- 5 There is limited capacity in the Pension Fund team at peak times of the year, which has been exacerbated by the increased governance requirements. There is a risk of self-review in investment work and a key person dependency on the Pensions, Investment and Accounting Manager.
- 6 The Pension Fund has comprehensive reporting of administration and investment performance.

## Use of resources to improve outcomes

- 7** The Pension Fund reported increases in pension fund assets in 2024/25. However, the Pension Fund did not achieve benchmark return targets.
- 8** A pensions dashboard will be in place by September 2025 in advance of the October 2025 deadline to support the public in accessing pension information in one place.

## Vision, Leadership and Governance

- 9** The Pension Fund has effective and appropriate governance arrangements for delivery of its plans.
  - 10** The arrangements for ensuring compliance with the General Code of Practice from the Pensions Regulator are effective.
  - 11** The Pension Fund continues to be a signatory to the Stewardship Code.
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# Introduction

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## Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Scottish Borders Council Pension Fund's (the Pension Fund) annual report and accounts and the wider scope areas specified in the Code of Audit Practice (2021).
2. The Annual Audit Report is addressed to Scottish Borders Council Pension Fund Committee and the Controller of Audit, and will be published on Audit Scotland's website in due course.

## Appointed auditor and independence

3. John Boyd, of Audit Scotland, has been appointed as external auditor of the Pension Fund for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, John Boyd as engagement lead and the audit team are independent of the Pension Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the Pension Fund, including no provision of non-audit services.

## Acknowledgements

4. We would like to thank the Pension Fund and its staff, particularly those involved in preparation of the annual report and accounts in both finance and Human Resources, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

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# Audit scope and responsibilities

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## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Management Commentary, Annual Governance Statement and Governance Compliance Statement.
- Conclusions on the Pension Fund's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the conclusions on the administering authority's arrangements related to the Pension Fund for meeting its Best Value duties.
- Provision of this Annual Audit Report.

## Responsibilities and reporting

**6.** The Code of Audit Practice sets out the respective responsibilities of the Pension Fund and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

**7.** The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on the Pension Fund's arrangements in place for the wider scope areas and Best Value.

**8.** The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the Pension Fund from its responsibilities outlined below.

**9.** The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

### **The Pension Fund's responsibilities**

**10.** The administering authority (Scottish Borders Council) of the Pension Fund has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual report and accounts, comprising financial statements for the Pension Fund that gives a true and fair view and includes other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value (at the administering authority).
- Establishing an internal audit function.

### **National performance audit reporting**

**11.** The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the Pension Fund and Pension Fund Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 3](#).

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# Audit of the annual report and accounts

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## Main judgements

The audit opinions on the annual report and accounts are unqualified and free from material misstatement.

There was one significant audit adjustment arising during the audit. Investment assets were overstated by £34.7 million as a result of a currency exchange error. Subsequent audit procedures confirmed this was an isolated error and this was amended in the financial statements.

## Audit opinions on the annual report and accounts

**12.** The Pension Fund's annual report and accounts were approved by the Pension Fund Committee on 18 September 2025 and then approved by Scottish Borders Council on 25 September 2025 and certified by the appointed auditor on 25 September 2025. The Independent Auditor's Report is included in the Pension Fund's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



## Audit timetable

**13.** The unaudited annual report and accounts and all working papers were received on 27 June 2025 in accordance with the agreed audit timetable.

## Audit Fee

**14.** The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £26,870. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

## Materiality

**15.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

**16.** Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

**17.** Materiality levels for the audit of the Pension Fund were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated, and these can be seen in [Exhibit 1](#).

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## Exhibit 1

### 2024/25 Materiality levels for the Pension Fund

Materiality	Pension Fund
<b>Materiality</b> – set at 2% of total net investments	£19.1 million
<b>Performance materiality</b> – set at 75% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£14.3 million
<b>Reporting threshold</b> – set at 5% of materiality.	£0.95 million

Source: Audit Scotland

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## Significant findings and key audit matters

**18.** ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the Pension Fund is the Pension Fund Committee.

**19.** The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor’s professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**20.** In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.

- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

**21.** The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

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## Exhibit 2

### Significant findings and key audit matters

Significant findings and key audit matters	Outcome
<p><b>Level 1 investment assets – incorrect value</b></p> <p>The custodian provides information on the year end balances for all investments which are then included in the Net Assets Statement.</p> <p>One level 1 investment was incorrectly included in the financial statements at its US dollar price instead of in pounds.</p> <p>The value of the overstatement was £34.7 million.</p> <p>This was a key audit matter due to the material value of the overstatement.</p>	<p>The custodian updated its records and shared additional workings with the Pension Fund. This was corrected in the annual report and accounts see <a href="#">Exhibit 3</a>.</p> <p>Audit work agreed all investments balances to third party documentation, and we are satisfied this was an isolated error.</p> <p>Management has committed to adding a variance analysis in the fund manager reconciliation. This would ensure that this type of error would be identified by that reconciliation process.</p>

Source: Audit Scotland

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### Significant matters discussed with management

**22.** All significant matters identified during the audit and discussed with the Pension Fund's management have been reported in the Annual Audit Report.

### Audit adjustments

**23.** Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £0.95 million are outlined in [Exhibit 3](#).

### Exhibit 3

#### Audit adjustments

Details	Financial statements lines impacted	Fund Account		Net Assets Statement	
		Dr	Cr	Dr	Cr
Audit adjustments to financial statements		£000	£000	£000	£000
1. As outlined in <a href="#">Exhibit 2</a> , an adjustment was required due to the incorrect value of one level 1 investment					
	Change in market value of investments	34,688			
	Investment assets			(34,688)	
<b>Net impact on financial statements</b>		<b>34,668</b>		<b>(34,668)</b>	
Audit adjustments in disclosures					
1. Further disclosures on contractual commitments to fund managers was included in the contingent liabilities note.					
2. The classification of CBRE was updated from infrastructure to property.					

Source: Audit Scotland

**There was one non-material misstatement identified within the financial statements totalling £0.98 million which was not adjusted. This was less than our performance materiality and we did not require to change our audit approach.**

**24.** Timing differences with the valuation of investment assets - When preparing accounts, the custodian provides information from fund managers on the valuation of investment assets. For a number of fund managers (those with level 3 investments), the latest available data was dated for December 2024. We obtained statements from fund managers which detailed the 31 March 2025 position. Timing misstatements of £2.7 million (both positive and negative) were identified from this work and confirmed with the custodian. The impact of this on the annual accounts would have been a net increase in investment assets of £0.98 million in the Net Assets Statement. As in previous years, this has not been adjusted for in the accounts. We are satisfied these are not material to the understanding of investment assets in the accounts.

**25.** One fund manager identified that their assets should now be classified as level 2 instead of level 3 in the fair value hierarchy and this was also the case for the prior year. We met with the fund manager and obtained fund reports from them. We are content with the reclassification. Whilst this had been included in the annual report and accounts, there have been some additional disclosures from the audit work done.

**26.** Jedburgh Leisure Facilities Trust entered into administration during late 2024. The Pension Fund has followed its cessation policy and sought advice from the Pension Fund's actuary to support this work. The process is now reaching completion. The Trust had four scheme members (one deferred and three pensioner members). There is no impact on these individuals in relation to pension and future pension provisions.

**27.** There was one non-corrected misstatement identified greater than the reporting threshold. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material. Management of the Pension Fund has not processed the audit adjustment to correct the misstatement detailed in paragraph 24 due to its value and being late information.

**28.** The value, nature, and circumstances of the uncorrected misstatement was considered by the audit team, and we concluded this was not material to the financial statements. As a result, this did not have any impact on the audit opinions given in the Independent Auditor's Report. Details of the uncorrected misstatement can be seen in [Appendix 2](#).

## Qualitative aspects of accounting practices

**29.** ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the Pension Fund's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

### Accounting policies

**30.** The appropriateness of accounting policies adopted by the Pension Fund was assessed as part of the audit. These were considered to be appropriate to the circumstances of the Pension Fund, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

### Accounting estimates

**31.** Accounting estimates are used in number of areas in the Pension Fund's financial statements, including the valuation of level 3 investments assets and the valuation of the pension liability. Audit work considered the process management of the Pension Fund has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

### Disclosures in the financial statements

**32.** The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and valuation of the pension liability.

### Other matters to report

**33.** Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. These matters included suspected or identified fraud, non-compliance with legislation, significant deficiencies in control. From work done throughout the audit, there were no matters identified or encountered on the audit of the Pension Fund which require to be reported.

### Significant risks of material misstatement identified in the Annual Audit Plan

**34.** Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 4](#).

## Exhibit 4

### Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
<p><b>Fraud caused by management override of controls</b></p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to</li> </ul>	<p>Audit work performed found:</p> <ul style="list-style-type: none"> <li>• The design and implementation of controls over journal processing were appropriate.</li> <li>• No inappropriate or unusual activity relating to the processing of journal entries was identified.</li> </ul>

Risk of material misstatement	Planned audit response	Outcome of audit work
	<p>the processing of journal entries.</p> <ul style="list-style-type: none"> <li>• Test journals entries, focusing on those that are assessed as higher risk and other adjustments.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.</li> </ul>	<ul style="list-style-type: none"> <li>• No significant issues were identified from testing of journal entries.</li> <li>• No significant issues were identified from transactions outside the normal course of business.</li> <li>• The controls in place for identifying and disclosing related party relationships and transactions were adequate.</li> <li>• No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias.</li> </ul> <p><b>Conclusion:</b> no evidence of fraud caused by management override of controls.</p>
<p><b>Estimation applied to level 3 investments</b></p> <p>The Pension Fund has a significant portfolio of level 3 investments (£357.9 million as at 31 March 2024) where valuations involve the application of a variety of estimates in determining appropriate valuations. This subjectivity gives rise to a significant risk of material misstatement in the financial statements.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Critically assess the Pension Fund’s arrangements for arriving at the valuation of level 3 investments, including reviewing the use of experts in undertaking the valuation.</li> <li>• Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation.</li> <li>• Review the relevant investment managers’ controls reports for qualifications or exceptions that may affect the audit.</li> </ul>	<p>Audit work performed found:</p> <ul style="list-style-type: none"> <li>• Level 3 investments were agreed to custodian and independently sourced fund manager reports.</li> <li>• Analytical procedures and developing an auditor point estimate allowed us to gain assurance that the valuations of level 3 investments were appropriate.</li> <li>• A review of investment managers’ controls’ reports was completed, and no material exceptions noted.</li> <li>• Reviewed the results of questionnaires used by the Pension Fund to assess investment managers’</li> </ul>

Risk of material misstatement	Planned audit response	Outcome of audit work
	<ul style="list-style-type: none"> <li>• Review the arrangements in place at the Pension Fund to assess investment managers' governance arrangements.</li> <li>• Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.</li> <li>• Conduct analytical procedures on Level 3 investments through using forecasts and market movements to obtain assurance over the reasonableness of valuations as at 31 March.</li> </ul>	<p>arrangements, which had some evidence of following up issues identified.</p> <ul style="list-style-type: none"> <li>• Reviewed the accounts disclosures and minor points were identified relating to notes in the accounts.</li> </ul> <p><b>Conclusion:</b> Satisfied that there were no material misstatements in the valuation of level 3 investments.</p>

Source: Audit Scotland

### Valuation of the pension liability

**35.** We completed specific work on the disclosure of the actuarial valuation of the Pension Fund liabilities. This involves a complex actuarial estimate. The Pension Fund engages an independent actuary to support the estimation. The valuation is based on a range of financial and demographic estimations about the future, based on a well-established methodology. The subjectivity around these estimates gives rise to a presentational risk of material misstatement.

**36.** We are satisfied that the actuarial valuation of defined benefit pension scheme obligations has been appropriately disclosed in the accounts in accordance with IAS (International Accounting Standard) 26: Accounting and Reporting by Retirement Benefit Plans. We reviewed the arrangements and controls in place at the Pension Fund, including the use of an actuarial expert to arrive at the valuation. We have reviewed the completeness and accuracy of the data provided to the actuary as well as the reasonableness of the underlying assumptions applied. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

## Prior year recommendations

**37.** The Pension Fund has made good progress in implementing the agreed prior year audit recommendations. For actions not yet fully implemented, revised responses and timescales have been agreed with the Pension Fund and are outlined in [Appendix 1](#).

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# Wider scope and Best Value audit

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## Audit approach to wider scope and Best Value

### Wider scope

**38.** As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

**39.** Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the Pension Fund has in place for each of these is reported in this chapter.

### Best Value

**40.** The Pension Fund is administered by Scottish Borders Council. As pension funds are not local authorities or separate bodies that fall within section 106 of the Local Government (Scotland) Act 1973, the statutory responsibility for securing Best Value for pension funds lies with the administering local authority, Scottish Borders Council.

**41.** Therefore, consideration of the arrangements the Pension Fund has put in place to secure Best Value has been carried out as part of the Scottish Borders Council audit, and a conclusion on the arrangements and any matters relating to the Pension Fund are reported in this chapter.

### Wider scope and Best Value risks

**42.** As reported in our Annual Audit Plan, no significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

## Conclusions on wider scope audit

### Financial Management and Sustainability

#### Conclusions

The Pension Fund's investments increased in value by £22 million in year to £959 million. This reflected market movements impacting fund performance with a return on investments of 2.9%. This was below the benchmark of 5.9% primarily as a result of relative underperformance in two equity mandates.

The net asset position was £959 million. The investment strategy was updated in year, and the Pension Fund has started moving towards the new strategic asset allocation. Planned divestments have begun in alternatives and long lease property mandates. This work will continue into 2025/26.

There is limited capacity in the Pension Fund team at peak times in the year, which has been exacerbated by the increased governance requirements. There is a risk of self-review in investment work and a key person dependency on the Pensions, Investment and Accounting Manager.

The Pension Fund has comprehensive reporting of administration and investment performance.

**43.** The audit work performed on financial management and sustainability arrangements identified that the Pension Fund has seen an increase in investment assets and reporting of financial performance is effective. We currently have no concerns over arrangements for financial sustainability despite the Pension Fund being a maturing fund. We noted that as there are increasing requirements for the Pension Fund team, there are capacity challenges.

**There was an increase in the value of investment assets of £22 million in year reflecting uncertainty in financial markets at year end**

**44.** The Pension Fund saw growth in investment assets in year of £22 million to £958 million. In 2024/25, the Pension Fund has seen an absolute return on investments of 2.9%, against a benchmark of 5.9%, resulting in a -3.0% relative return.

**45.** The absolute positive return in year has been driven by the majority of the Pension Fund's equity holdings. Holdings in technology related stock (including AI) have driven most of the growth in year. Financial and energy sector holdings have also performed well. Infrastructure assets have tended to have poorer performance in year, and this relates to the uncertainty over the future path for interest rates.

**46.** There continues to be a challenging global backdrop, with world events having an impact on financial markets and investments. Trade policy tensions and geopolitical tensions in early 2025 has tempered growth and is likely to continue to impact financial markets during 2025/26.

47. The Pension Fund's performance in 2024/25 is summarised in [Exhibit 5](#).

## Exhibit 5

### Pension Fund assets, funding level and investment performance

Increase in net assets	Funding level	Investment performance
<b>£958.4 million</b> Closing net assets at 31 March 2025	<b>134%</b> Net assets vs promised retirement benefits 31 March 2023 (based on the 2023 triennial valuation)	<b>2.9%</b> Return on investments 2024/25 (against a benchmark of 5.9%)
<b>£938.2 million</b> Opening net assets at 1 April 2024	<b>110%</b> Net assets vs promised retirement benefits 31 March 2020 (based on the 2020 triennial valuation)	<b>2.3%</b> Average annual return on investments over 3 years (against a benchmark of 6.8%)

Source: 2024/25 Scottish Borders Council Pension Fund annual report and accounts

#### The 2023 triennial valuation resulted in a funding level of 134%.

48. There is a statutory requirement for local government pension funds to undertake a full actuarial valuation of assets and liabilities every three years. This is referred to as a triennial valuation.

49. The most recent triennial funding valuation took place across Local Government Pension Scheme funds in 2023/24 based on data as at 31 March 2023. The main purpose of the valuation is to review the financial position of each fund and to set appropriate contribution rates for each employer for the upcoming three-year period as part of the fund's overall funding strategy.

50. The results of the 2023 full triennial valuation of the Pension Fund showed a funding level of 134%. This meant that overall, the Pension Fund had a surplus of assets over liabilities and that the fund assets were higher than projected liabilities. The result of this increase in surplus has been that the employers' contribution rate for the Council Pool was reduced to 17.0% for the three-year period 2024/25 to 2026/27.

#### The Pension Fund's actuarial statement for 2024/25 identifies that the funding level is likely to have increased in year

51. Hymans Robertson, the Pension Fund's actuary, produces an annual actuarial statement. The actuary noted that whilst markets reflected volatility during 2023, asset performance then improved in 2024 and early

2025. The recent increase in US tariffs on imports has caused significant market volatility with the peak of this market volatility experienced immediately after 31 March 2025. However, generally lower than expected asset returns were experienced in the month immediately prior to this. Continued high levels of inflation in the UK also resulted in a higher than expected pensioner benefit pay increase of 6.7% for 2024/25. Inflation has reduced towards historical levels which means the pensioner benefit pay increase will be 1.7% in April 2025 (for 2025/26).

**52.** The promised retirement benefits at 31 March 2025 have been estimated at £706 million (31 March 2024: £793 million), showing a £87 million (10.9%) decrease. This estimate uses assumptions in line with Internal Accounting Standards (IAS) 19 requirements for the purposes of the Pension Fund's financial statements. It is not directly comparable to the liability measured on a funding basis.

**53.** With the fair value of fund assets (investment assets) £959 million, this means a net asset position of £253 million. This has increased from a net asset position of £144 million in 2023/24. The actuary noted that overall, the funding level of the Pension Fund at 31 March 2025 is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023. The next actuarial valuation will be carried out as at 31 March 2026.

**The investment strategy review began in 2024/25, and the restructuring of the asset allocation portfolio will continue in 2025/26**

**54.** Following the completion of the 2023 triennial valuation process, the Statement of Investment Principles was revised in March 2024. The main focus of the Pension Fund is to continue to seek capital growth to meet future liabilities, and it includes a move towards a greater focus on income producing assets.

**55.** An investment strategy review was also completed. This resulted in a new strategic asset allocation being approved by the Pension Fund Committee in December 2024. The investment strategy reflects key principles including:

- The Pension Fund is a maturing fund, so a focus will remain on capital growth of investments, with sufficient income generating investments to ensure the cashflows meet current needs.
- Consideration given to reducing/managing the number of mandates for the Pension Fund to streamline the governance burden on the Committee and staff whilst ensuring there remains an appropriately diversified asset basis.
- An increased consideration of ESG (environmental, social and governance) factors to improve the credentials of the Pension Fund as there are increasing regulatory requirements due in this area.

**56.** During 2024/25 work has been ongoing to restructure the portfolio to align to the new strategic asset allocation. The main changes are outlined in the annual report and accounts and include divestments in the pooled alternatives fund with LGT and the pooled property fund with Blackrock. This will result in £139 million of proceeds returned to the Pension Fund (over the next 24 months) which will be reinvested through 2025/26 and 2026/27.

**57.** New investments in 2024/25 have been made in M&G in diversified credit and index linked gilts (£48 million), CBRE for residential housing (£22 million), and Permira for direct lending (£9.3 million). Impact allocations in the renewables and natural capital field saw further funding to Quinbrook (£20 million allocated with £4 million drawn down in year) and a further £10 million invested in Nuveen's global timberland fund. The restructuring will continue throughout 2025/26 to align to the new agreed asset allocation.

**58.** We have concluded that medium-term financial planning arrangements are appropriate.

### **Pension Fund membership levels continue to increase with the number of pensioners outweighing active (contributing) members**

**59.** The Pension Fund is a multi-employer fund with Scottish Borders Council and seven other admitted and scheduled bodies making contributions at present. There are 17 employer organisations in total, with nine small organisations having only deferred pensioners or pensioners. One small admitted body entered administration in year.

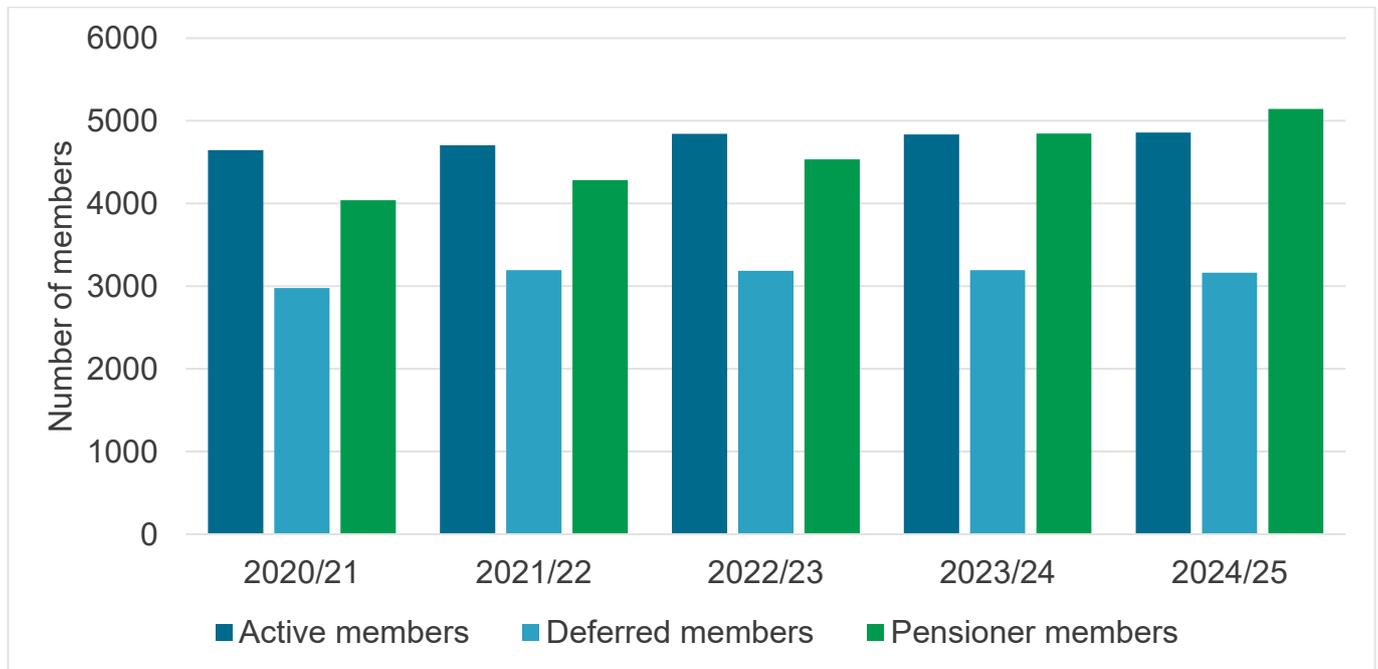
**60.** Although overall membership increased by 287 in year (2023/24: +318), this saw a small increase of 23 active (contributing) members (2023/24: -6), which is significantly lower than the increase of 297 pensioner members (2023/24 +316). There was a decrease of 33 deferred members (2023/24: +12). The current membership profile is shown in [Exhibit 6](#).

**61.** The number of active members dipped below the number of pensioners for the first time in 2023/24 and this has continued into 2024/25. This ratio has reduced over the past five years. In 2024/25 the number of pensioners receiving a pension from the Pension Fund increased by 297 to 5,145 and the number of pensioner members continues to increase steadily each year, increasing by over 25% over the last five years. In 2020/21 pensioners were the equivalent of 86.9% of active members with this increasing so that pensioners are the equivalent of 106% of active members in 2024/25.

**62.** The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each members' life. It is important that the fund maintains the capacity to meet the current and future pension entitlements of its members.

**63.** In August 2025, the Accounts Commission published [Delivering for the future](#). This report highlights the challenges facing councils regarding workforce, with the messages also applicable to other public sector bodies. Recruitment and retention of staff continues to be a challenge, and most councils have an ageing workforce. Councils are actively considering their future workforce requirements, including the need to make reductions. In addition, the use of more digital technology is an area being used by councils to support workforce pressures. The Pension Fund needs to maintain an awareness of these trends in the medium-term to ensure that this is considered in future funding strategies, given these changes may further increase the number of pensioners relative to active members.

**Exhibit 6**  
**Scottish Borders Council Pension Fund membership**



Source: Scottish Borders Council Pension Fund 2024/25 audited financial statements

**The Pension Fund has overall positive cash flows. Cash flows in relation to members continue to be negative with more paid in benefits that received in contributions. Surplus cash is generated through investment income**

**64.** Cash flows from dealings with members continue to be negative as has been the case over the last number of years, with more paid out in benefits than that received from contributions. The Pension Fund recognises a failure to manage the liquidity required for the Pension Fund's cash flow as a green risk (moderate risk, remote likelihood) on the risk register in 2024/25.

**65.** It is expected this negative cash flow in relation to members will continue going forward. Over the longer term, the cash flow position will impact on the investment strategy as income from investments rather than contributions will be needed to pay pensions as detailed in [Exhibit 7](#). The strategic asset allocation identifies the need for generating income for cash flows whilst maintaining longer term capital growth.

**66.** The Pension Fund is classed as a maturing fund, with the continued growth in pensioner numbers within the Fund's membership making future funding pension payments increasingly challenging. The Statement of Investment Principles for both 2024 (approved in March 2024) and 2025 (approved in March 2025) has reflected this in the investment strategy with a move towards a greater focus on income generating assets to address the negative cashflows. The main focus of the fund however is to continue to seek capital growth to meet future liabilities.

## Exhibit 7

### Cash flows from 2022/23 to 2024/25

	2022/23 £m	2023/24 £m	2024/25 £m
Contributions	24.318	26.732	26.173
Transfers in	0.742	3.480	2.545
Benefits paid	(28.281)	(32.654)	(36.088)
Transfers out/leavers	(1.882)	(1.332)	(2.726)
Management expenses	(5.997)	(7.577)	(8.382)
Investment income	16.284	22.505	24.031
<b>Total</b>	<b>5.184</b>	<b>11.154</b>	<b>5.553</b>

Source: Scottish Borders Council Pension Fund 2022/23 to 2024/25 audited annual accounts

**67.** The investment income generated by the Pension Fund has ensured, as in previous years, that there are sufficient cash flows to manage required payments. The current investment strategic allocation is appropriate for delivering the required investment income, but this should be subject to close monitoring. This will ensure that the Pension Fund does not need to sell assets when it is financially disadvantageous nor miss out on investment opportunities.

### **We currently have no concerns about the financial sustainability of the Pension Fund or the viability of the funding strategy**

**68.** Given the triennial valuation showed that the Pension Fund was 134 per cent funded at 31 March 2023 and the healthy net asset position at 31

March 2025, we currently have no concerns about the financial sustainability of the Pension Fund or the viability of the funding strategy.

### **There is comprehensive reporting of the Pension Fund's administration and investment performance**

**69.** The Pension Fund Committee receives administration and investment performance reports at its quarterly meetings. These reports are comprehensive and include fund performance trends, investment manager performance against benchmarks, and movements in asset allocations.

**70.** The administration budget performance and cash flows are also reported. We noted that the actual expenditure costs relating to investment management were £0.55 million (8%) greater than budgeted. This directly related to new investment manager fees for three fund managers, and there was also an increase in performance fees for one fund manager.

**71.** From attendance at Pension Fund Committee meetings, we observed and concluded that reports presented to members are subject to appropriate review and scrutiny.

### **There is limited capacity in the Pension Fund team at peak times of the year and a risk of key person dependency on the Pensions, Investment and Accounting Manager**

**72.** Staff supporting the Pension Fund are those working in the administration of pension awards and payments, and those working on investment, governance and accounting. There is limited capacity for those working on investment, governance and accounting requirements at peak times of the year.

**73.** We are aware that there are increased pressures in governance and investment requirements stemming from the requirements of The Pensions Regulator (TPR), reporting to meet the Stewardship Code, and the work on a large number of fund managers impacted by the new strategic investment allocation.

**74.** The lack of capacity in the team, means that there is a risk of self-review in work relating to journals and reconciliations which have been put in place to support good financial management. This risk means that it can be more challenging to identify any errors or issues. Further, given that the Pensions, Investment and Accounting Manager has responsibility for this and the governance and investment requirements above, there is a risk of key person dependency.

#### **Recommendation 1**

The Pension Fund should look to support capacity within the team to reduce the risk of self-review and key person dependency.

**75.** The financial regulations of Scottish Borders Council, as administering authority, apply to the Pension Fund. We consider these to be current, comprehensive, and support good financial management.

**76.** From a review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any significant internal control weaknesses which would affect the Pension Fund's ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements. We noted areas that could be strengthened which include:

- Reconciliations – improvements have been made through the introduction of a series of reconciliations to support financial management. But we note that these have not been subject to formal review in year and additional controls can be added to help identify errors. This reflects the self-review risk detailed above.
- Due diligence questionnaires – we noted there were improvements from 2023/24 including following up on issues with fund managers. However, there were some issues identified from audit work which had not been identified from the review. We will continue to monitor this into 2025/26.

Recommendations 2 and 3 from the prior year will remain open (classed as partially implemented).

### **Assurance gaps in controls reports from fund managers**

**77.** As part of the due diligence process the Pension Fund requests a series of assertions and documents from fund managers to gain assurances over the internal controls and processes at these bodies.

**78.** As part of our audit work, we also seek assurances over internal controls at fund managers and review these in line with ISA 402 Audit Considerations Relating to an Entity Using a Service Organisation and ISA 500 Audit evidence (use of management expert). Fund managers obtain an ISAE 3402 Type 2 Service Auditor report (or equivalent) which gives external assurance over the suitability of the design and operational effectiveness of controls.

**79.** Two fund manager (Alinda - immaterial holding and Macquarie (MSIG element only) – immaterial holding) had qualified opinions in the controls reports which related to logical user access to systems. Having reviewed this, and identifying there were no issues relating to valuations, we are satisfied that this does not impact our audit opinions. Two fund managers (Infrared/Waterloo and KKR) (immaterial holdings) do not seek external validation via service controls reports. Both identify other controls they have in place, but do not provide external assurance over these. Having

discussed with management and consideration of the value of these holdings, we are satisfied that this does not impact our audit opinions. This information has been appropriately disclosed in the governance statement.

**The Chief Officer Audit & Risk's opinion was that there were generally sound systems of governance, risk management and internal control operating within the Fund during 2024/25**

**80.** The Pension Fund's internal audit function is carried out by Scottish Borders Council's internal audit function. Internal audit completed its planned work in year and issued its opinion for 2024/25 to the June 2025 Pension Fund Committee meeting. The Chief Officer Audit & Risk's opinion was that there were generally sound systems of governance, risk management and internal control operating within the Pension Fund during 2024/25.

**Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate**

**81.** In the public sector there are specific fraud risks, including those relating to pension claimants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption. We note that the Pension Fund uses services such as the Department of Work and Pensions' Tell Us Once service which will help support identification of errors regarding pension overpayments. A new mortality screening service was introduced in late 2024/25 which will support this work.

**82.** The Pension Fund follows the policies and procedures of the administering authority and has adequate arrangements in place to prevent and detect fraud or other irregularities.

## Use of Resources to Improve Outcomes

### Conclusion

The Pension Fund reported increases in pension fund assets in 2024/25. However, the Pension Fund did not achieve benchmark return targets.

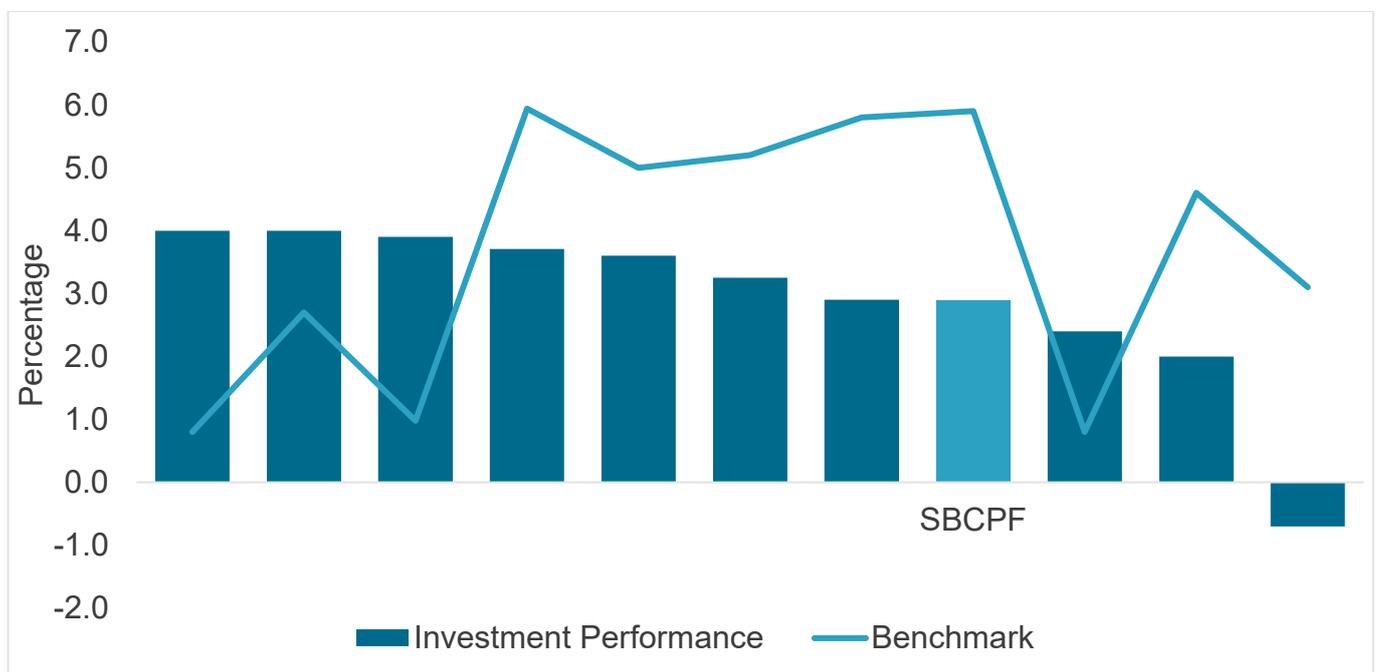
A pensions dashboard will be in place by September 2025 in advance of the October 2025 deadline to support the public in accessing pension information in one place.

**In 2024/25 ten of the eleven Scottish Local Government Pension Schemes reported increases in pension fund assets during the year, with four funds reporting an above benchmark return.**

**83.** As shown in [Exhibit 8](#), ten of the eleven funds Scottish Local Government Pension Schemes reported positive movements in net assets during the year, with four funds reporting an above benchmark return. Investment performance ranged from 4.0% to -0.7% (compared to returns ranging from 5.5% to 15% in 2023/24). The Pension Fund’s net return of 2.9% (against a benchmark return of 5.9%) was below the middle of the range.

### Exhibit 8

**Scottish LGPS pension funds 2024/25 – Return on investment and benchmark return**



Source: 2024/25 Scottish Local Government Pension Schemes unaudited accounts

### Investment performance has reduced in year, and remains below the benchmark set for the year

**84.** The Pension Fund has appointed 14 external investment managers with 19 associated funds, and in addition has a further portfolio of infrastructure investments in collaboration with Lothian Pension Fund. Individual investment manager performance is reviewed regularly by the Pension Fund Committee via quarterly reports. In addition, the Investment and Performance Sub-Committee regularly meets with representatives from the various investment fund managers on a cyclical basis to support scrutiny of performance.

**85.** Whilst overall assets increased by £22 million in 2024/25, the 2.9% absolute increase in investment performance was below the 9.1% absolute return achieved in 2023/24. Thirteen of the twenty funds

delivered an absolute positive return in year, but only five of these have delivered a relative positive return (against benchmark), with the remainder underperforming against twelve-month performance objectives. The Pension Fund engages with fund managers when performance is lower than expected to understand the reasons, and then there will be more focused monitoring of those funds' performance. The positive return in year has been driven by the majority of the Pension Fund's equity holdings, however there was a relative underperformance of two equity mandates. Infrastructure assets have tended to have poorer performance in year, and this relates to the uncertainty over the future path for interest rates.

**86.** There continues to be a challenging global backdrop, with world events having an impact on financial markets and investments. Trade policy tensions and geopolitical tensions in early 2025 has tempered growth and is likely to continue to impact financial markets during 2025/26.

**The main focus of the Pension Fund is to seek and capital growth to meet future liabilities, whilst there is an increased focus is income producing assets**

**87.** The Statement of Investment Principles for 2024 and 2025, approved in March 2024 and March 2025, restates the funding objectives are to

- To set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Pension Fund.
- To build up the required assets in a way that produces employer contributions, which are as stable as possible.

**88.** These objectives are complemented by the investment strategy which has a main focus to continue to seek capital growth to meet future liabilities, but also to move towards a greater focus on income producing assets. This is to reflect the maturing fund. The strategic asset allocation, as noted above, was approved in December 2024 and there have been some changes made to reflect these principles. There has been a reduction in long lease property assets and diversified alternatives, with an increase in investment in credit (e.g. index linked gilts and diversified credit). A formal impact allocation has been agreed. The move to this revised strategic asset allocation will continue throughout 2025/26.

**The Pension Fund's administration function has performed well against targets**

**89.** The Pension Administration Strategy, approved in March 2024, details the service standards against which administration performance is measured. Outcomes for the year are reported to the Pension Fund Committee and included within the annual accounts.

**90.** The service standards across performance measures were generally met in year. All annual benefits statements were issued before the

deadline of 31 August 2025. The Pension Fund had self-reported itself to the TPR in autumn 2024 because the McCloud Remedy underpin information was not included in the 2024 Annual Benefit Statements issued to members. The Pension Fund noted that the TPR did not provide any feedback or comment regarding this report.

**91.** Employer performance measures including new starts notification, change notification and retirement information were all within the target working days all were in excess of the 90% threshold. Standards for estimates of transfers in and out were below the 20 working days targets and were 80% and 74% respectively.

**92.** We concluded that the Pension Fund Committee receives timely updates on administration performance and also changes and improvements in administrative related matters.

**A pensions dashboard will be in place by September 2025 in advance of the October 2025 deadline to support the public in accessing pension information in one place**

**93.** Following the introduction of automatic enrolment, and a subsequent increase in the number of people saving for retirement it has meant it can be difficult for people to keep track of their pensions. The UK Government introduced pension dashboards to improve the way people can see and interact with their pensions, through the Pensions Dashboards Regulations 2022. Pensions dashboards will be an electronic communications service intended to be used by individuals to access information about their pensions online, securely, and all in one place.

**94.** As a pension provider, the Pension Fund is legally required to have a pension dashboard. Local Government Pension Schemes are required to have a dashboard in place by 31 October 2025. Ongoing user testing is being carried out on the dashboard by the administration team in advance of a planned go live date in September 2025.

**95.** iConnect is a cloud-based system that manages the flow of employee information from payroll system to the fund's pension administration system. The software enables employers to provide employee information in a secure method. The monthly data uploads inform the Pension Fund of any changes to members details, new joiners and leaver forms, removing the burden of cumbersome employer year end reporting. We note that this is an area for development in the Business and Governance Plan with planned implementation for larger employers being moved into 2025/26 as other areas of work have taken priority over this.

**Contract awards have been made for custodian and actuarial services**

**96.** A procurement exercise has been completed for the Pension Fund actuary. Hymans Robertson has been reappointed for five years to June 2030, with the option to extend for a further five years.

**97.** The custodian contract was due for renewal in September 2025. A procurement exercise is not required as the Council's procurement team has advised that the contract is exempt under clause 11(1)(f) The Public Contracts (Scotland) Regulations 2015 which provides an exemption for financial services "in connection with issue, sale, purchase or transfer of securities or other financial instruments". The existing contract has been extended for two years with Northern Trust to September 2027.

### **Investment cost benchmarking was completed in 2024/25**

**98.** Work was completed by CEM Benchmarking in year which looked to compare the costs incurred by the Pension Fund and benchmark this against other global pension schemes. The Pension Fund was compared with 56 other funds (including five UK local government pension schemes) with a similar net investment asset position.

**99.** Findings showed that the Pension Fund costs associated with investment assets were six base points below the average cost. The reporting provided insights such as the amount of costs across different types of assets showing that alternative asset classes made up a smaller proportion of asset (40%) but over 60% of costs. Insights like this will allow the Pension Fund to understand its cost basis and be able to take this forward when making future investments or renegotiating management fees.

## **Vision, Leadership and Governance**

### **Conclusion**

The Pension Fund has effective and appropriate governance arrangements for delivery of its plans.

The arrangements for ensuring compliance with the General Code of Practice from the Pensions Regulator are effective.

The Pension Fund continues to be a signatory to the Stewardship Code.

**100.** The audit work performed on the arrangements the Pension Fund has in place around its Vision, Leadership and Governance found that these were generally effective and appropriate.

### **Governance arrangements are appropriate and operate effectively**

**101.** Scottish Borders Council is the administering body for the Pension Fund. The Council has delegated responsibility for governance to the Pension Fund Committee. This committee, supported by the Board (made up of four scheme employer representatives and four trade union representatives – currently one employer vacancy), is responsible for establishing arrangements that ensure the proper conduct of the affairs of

the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

**102.** The Pension Fund's governance arrangements have been set out in the Annual Governance Statement in the annual report and accounts. We note that during 2024/25 a number of revisions to plans and policies were completed. We have reviewed these arrangements and concluded that they are appropriate.

**103.** The Cessations Policy (April 2025) was revised with support from the appointed actuary. It was approved at the June 2025 Pension Fund Committee. This reflects the new Local Government Pension Scheme (Scotland) (Amendment) Regulations 2025, with the revisions from this being incorporate into the Local Government Pension Scheme (Scotland) Regulations 2018.

### **The arrangements for ensuring compliance with the General Code of Practice from the Pensions Regulator are effective**

**104.** The Pensions Regulator (TPR) issued a new General Code of Practice in March 2024 which sets out the expectations of conduct and practice that funds should meet to comply with their duties in pensions legislation.

**105.** The Pension Fund obtained a compliance checker from Hymans Robertson LLP to identify areas from the new General Code of Practice where the Pension Fund currently did not fully comply with the new requirements. The Pension Fund has worked to address areas where there was partial compliance. This has resulted in a number of new policies and procedures which have been approved by the Pension Fund Committee. This includes:

- Escalation Policy
- Breaches Policy
- Internal Disputes Resolution Procedure
- Conflicts of Interest Policy

**106.** The Conflicts of Interest Policy specifically gives advice to Pension Fund Committee members on areas where there is potential conflict including personal financial interests, relationships with providers (e.g. fund managers, actuary) and gifts and hospitality. We noted from a review of register of interests that personal financial interests have been declared by some members and no issues were identified from this work. We noted that at the start of meetings any conflicts of interest are required to be declared. No other interests were identified in year. The policy is fully aligned with the Standards Commission for Scotland [Code of Conduct for Councillors 2021](#) regarding conflicts of interest and also includes specific guidance from the Code of Conduct regarding gifts and hospitality. Given

the nature of pension funds and engagement with fund managers, it is important that there is clear guidance in relation to gifts and hospitality.

## Recommendation 2

There should be regular training for members in identifying conflicts of interests including in relation to gifts and hospitality.

**107.** Reporting to the Pension Fund Committee in June 2025 identified that areas which still require further improvement relate to administration factors, including scheme administration, information handling and IT and cyber security to meet TPR expectations and best practice. We concluded that the Pension Fund is working well towards full compliance with TPR expectations and best practice.

### **There was regular reporting on performance against the actions detailed in the Business and Governance Plan 2024/25 – 2026/27**

**108.** The Business and Governance Plan 2024/25 – 2026/27 was approved in September 2024. Reporting of performance against this plan were reported to each quarterly meeting of the Pension Fund Committee. A review of actions completed in year was presented in June 2025 as part of the updated Business and Governance Plan 2025/26 – 2027/28. This clearly evidenced how actions were completed including when there was approval of policies at Committee meetings.

**109.** A small number of actions remained open at year end including a review of employer body covenants, the implementation of iConnect and digitalisation of historic records which have been taken forward into the next plan.

### **An Independent Professional Observer (IPO) has been appointed to support the Pension Fund Committee and Board**

**110.** The independent review completed in December 2022 identified the opportunity for having an IPO to support good governance through providing independent observations to the Committee and Board and through this support management and members. An IPO was appointed in March 2025. We look forward to seeing the development of this role through the duration of our audit appointment.

### **Risk reporting was revised in 2024/25**

**111.** The Pension Fund Risk Management Policy and Strategy 2024-2026 was revised in March 2024. At the same time a revised risk register was introduced which reduced and amalgamated risks so that there are 17 key risks instead of over 50. These have been grouped into five key themes covering: funding, investments, administration, governance and national policy/regulations.

**112.** Each key theme has been discussed at a quarterly Pension Fund Committee in line with an agreed timetable, providing increased visibility of risks

with the committee members. As part of the members development day in November 2024, there was a risk management development session to ensure clarity of roles and responsibilities, processes, oversight and monitoring.

### **A training skills assessment was completed in year and member training requirements were met in year**

**113.** In 2024/25, all members of the Pension Fund Board and Committee met the training requirements for the role, which is a minimum of two training sessions per year. This was primarily addressed through an extended development day in November 2024 which consisted of a number of sessions to meet the requirements. Additional training opportunities were identified throughout the year including seminars by fund managers.

**114.** The training policy for 2025/26 was approved by the Committee on 24 June 2025. A skills needs assessment has identified four areas for training sessions in 2025/26 which includes the actuarial valuation in advance of the next triennial valuation taking place at 31 March 2026.

### **The Pension Fund continued to be a signatory to the Stewardship Code during 2024/25**

**115.** The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

**116.** The Code applies to asset owners (the Pension Fund), asset managers and service providers. The Pension Fund is classified as an asset owner. Organisations listed are required to report every year to the FRC (Financial Reporting Council) on their application of the Code. Reports are [assessed by the FRC](#) and organisations that meet the reporting expectations are accepted as signatories. The Pension Fund continues to be a signatory with the third submission approved in February 2025.

### **Performance reporting and other information in the accounts provide details of the Pension Fund over the year**

**117.** The Management Commentary included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements. All areas were covered in the report directly, or via links to other areas of the accounts. It complied with the requirements in place and provided sufficient detail for understanding the Pension Fund's performance. There was some duplication in the reporting in other information, particularly investments. Going forward there is scope to enhance these disclosures to remove duplication and ensure that the information meets stakeholders needs.

**Scottish Local Government Pension Schemes are currently not required to comply with climate change reporting. The Pension Fund Committee regularly reports in this area, given its importance to the Pension Fund**

**118.** The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 introduced new requirements for certain trustees. From 1 October 2022, the rules were applied to trustees of pension schemes with net relevant assets of £1 billion or more.

**119.** These requirement disclosures are still commonly referred to as the Taskforce for Climate Related Financial Disclosures (TCFD). The mandatory requirements of the TCFD remain in place despite the TCFD being formally disbanded. The International Sustainability Standards Board's (ISSB) inaugural standards having been released ([IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information](#) and [IFRS S2 Climate-related Disclosures](#)). The Financial Stability Board (FSB) has requested that the ISSB assume responsibility for monitoring progress on climate-related financial disclosures as of 2024.

**120.** The timing for Scottish Local Government Pension Funds to comply with legislation when they meet a £1 billion assets threshold is not yet confirmed. The Pension Fund has commissioned its investment consultants, ISIO, to support this work and reports on this are currently discussed in the private session of the Pension Fund Committee. The Pension Fund approved its first report to meet these requirements in September 2024.

**121.** The Pension Fund Committee has an ambition to report in line with TCFD ahead of confirmed regulatory guidance given its importance to the Pension Fund. It plans to evolve this reporting going forward once guidance is confirmed. Detailed information on the environment, social and governance issues (ESG) are included within an appendix to the latest Stewardship Code application.

**122.** The Pension Fund has a fiduciary duty to work in the best interest of scheme beneficiaries (pensioners). The Pension Fund has considered its approach to ESG issues and reported in the annual accounts that it believes that a positive approach to ESG issues can positively affect the financial performance of investments. The Pension Fund has agreed 5% of assets will be invested in impact allocations as part of the new strategic allocation of assets. Further investment totalling £15 million in 2024/25 was made in two fund mandates relating to natural capital and renewables with further opportunities currently being reviewed.

## Conclusions on Best Value

**123.** Overall, Scottish Borders Council has effective and appropriate arrangements in place for securing Best Value. The outcome of audit work on the administering authority's Best Value arrangements is reported in the Council annual audit report. This includes a summary of the work on the best value thematic work on transformation, and work on the fairness and equality duty. There are no findings directly applicable to the Pension Fund.

# Appendix 1

## Action plan 2024/25

### 2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p><b>1. Capacity in governance and investment work</b></p> <p>There is limited capacity in the Pension Fund team at peak times of the year, which has been exacerbated by the increased governance requirements.</p> <p><b>Risk</b> - self-review in investment work and a key person dependency on the Pensions, Investment and Accounting Manager.</p>	<p>The Pension Fund should look to support capacity within the team to reduce the risk of self-review and key person dependency.</p> <p>This may be through obtaining services from an external provider to reduce the self-review risk.</p>	<p><b>Accepted</b></p> <p>Implement use of Northern Trust's custom General Ledger reporting to support preparation of Annual Report and Accounts.</p> <p>This service will support capacity within the team, ensure segregation of duties and strengthen financial reporting integrity.</p> <p><b>Responsible officer</b></p> <p>Pensions, Investments and Accounting Manager</p> <p><b>Agreed date</b></p> <p>March 2026</p>
<p><b>2. Conflicts of interest policy</b></p> <p>The new conflicts of interest policy provides guidance regarding declarations of personal financial interests, relationships with providers (e.g. fund managers, actuary) and gifts and hospitality.</p> <p><b>Risk</b> – that given the nature of the Pension Fund member role and interaction with fund managers, there is increased focus on members declarations.</p>	<p>There should be regular training for members in identifying conflicts of interests including in relation to gifts and hospitality.</p>	<p><b>Accepted</b></p> <p>Training will be provided during the Pension Fund Committee and Board training day in November 2025. Any members unable to attend will receive the training notes and requested to confirm their understanding of the requirements of the Conflicts of Interest Policy with specific reference in relation to gifts and hospitality.</p> <p><b>Responsible Officer</b></p> <p>Pensions, Investments and Accounting Manager</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
		<b>Agreed Date</b> November 2025

## Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p><b>1. Cash holdings</b></p> <p>Cash holdings relating to distributions and disinvestment were held within fund manager mandates.</p> <p><b>Risk</b> – cash available for investment is not utilised in line with the investment strategy and best value is not achieved.</p>	<p>The Pension Fund should regularly review fund mandates for distributions and disinvestments and instruct the custodian to ‘sweep’ any cash into the internally managed cash account, so that any excess holdings can be identified and invested in line with the Pension Fund’s investment strategy.</p> <p><b>Accepted</b></p> <p>Monthly review of custody accounts cash balances for each Investment Manager to sweep cash to internally managed cash account. Advise ISIO cash balance available for reinvestment.</p> <p><b>Responsible officer</b></p> <p>Jill Murray</p> <p><b>Agreed date</b></p> <p>September 2025</p>	<p><b>Implemented</b></p> <p>Regular sweeps are now taking place and there is clear evidence of ongoing discussions with ISIO to reinvest funds.</p>
<p><b>2. Reconciliations</b></p> <p>Regular reconciliations mean that management information and subsequently working papers provide clearer information and explanations for any variances.</p> <p><b>Risk</b> – reasons for any variances from expectation may be difficult to identify and</p>	<p>Working papers and management information can be improved by having regular reconciliation of information from the custodian and ledger and for management fee information.</p> <p><b>Accepted</b></p> <p>Quarterly review and reconciliation of NT (custodian) income and</p>	<p><b>Partially implemented</b></p> <p>Reconciliations have been put in place. Further work should ensure there is regular review, and ongoing improvements to the process, to ensure that errors are identified in a timely manner.</p> <p><b>Accepted</b></p> <p>Improve oversight of current quarterly Income, Expense</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>errors may not be identified on a timely basis.</p>	<p>expenses to BW (ledger) income and expenses.</p> <p><b>Responsible officer</b> Jill Murray</p> <p><b>Agreed date</b> September 2025</p>	<p>and Market Value reconciliations with clear segregation of duties for preparation and review of reconciliations.</p> <p><b>Responsible officer</b> Pensions, Investments and Accounting Manager</p> <p><b>Agreed date</b> December 2025</p>
<p><b>3. Due diligence questionnaires</b></p> <p>Whilst due diligence questionnaires were received from all fund managers, where information was not shared or there were issues identified, there was no follow up.</p> <p><b>Risk</b> – without the scrutiny as part of a follow up process, investments held by managers may be exposed to unnecessary risks.</p>	<p>Whilst a review of due diligence questionnaire was carried out, discrepancies and issues were not followed up with fund managers. The questionnaire can be revised to ensure more comprehensive information is received from fund managers which will better support the work of the Pension Fund.</p> <p><b>Accepted</b></p> <p>Review and update of current due diligence questionnaires to capture required elements addressed during audit, follow up any issues identified on review of completed questionnaires.</p> <p><b>Responsible officer</b> Jill Murray</p> <p><b>Agreed date</b> March 2025</p>	<p><b>Partially implemented</b></p> <p>Processes were improved in year and there was ongoing dialogue with fund managers to ensure all information requests were received.</p> <p>There is scope for further review to ensure issues from these questionnaires are identified and followed up to ensure the Pension Fund is able to satisfy itself that investments are not exposed to unnecessary risks.</p> <p><b>Accepted</b></p> <p>Reporting timetable for Due Diligence Questionnaire will be adjusted to allow adequate time for review and validation of responses prior to preparation of Annual Report and Accounts.</p> <p><b>Responsible officer</b> Pensions, Investments and Accounting Manager</p> <p><b>Agreed date</b> March 2026</p>
<p><b>4. Systems service auditor report</b></p> <p>The pension administration platforms will include the new</p>	<p>The service auditor and disaster recovery testing reports from Heywood Technologies should be obtained and reviewed on an</p>	<p><b>Implemented</b></p> <p>All documentation from Heywood Technologies was</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>dashboard and iConnect and therefore service auditor reports should be obtained to support the risk assessment both new and current systems.</p> <p><b>Risk</b> – without review of these documents there may be unidentified control environment risks.</p>	<p>annual basis to support the assessment of the pension administration control environment. Going forward it should be ensured that these reports cover the new dashboard and iConnect.</p> <p><b>Accepted</b></p> <p>Pensions Administration Team will work alongside Heywood Technologies to request the provision of the additional information to support this request.</p> <p>Consideration will also be given to a LGPS Scotland wide request for this information through the SPLG meeting forum with all Funds in Scotland using Heywood software.</p> <p><b>Responsible officer</b></p> <p>Ian Angus</p> <p><b>Agreed date</b></p> <p>31 March 2025 and annual thereafter</p>	<p>obtained and subject to review.</p>

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# Appendix 2

## Summary of uncorrected misstatements

Details	Financial statements lines impacted	Fund Account		Net Assets Statement	
		Dr	Cr	Dr	Cr
Uncorrected misstatements		£m	£m	£m	£m
1. Investment assets late information					
	Investment assets			0.980	
	Change in market value of investments		(0.980)		

### Uncorrected disclosure

1. UBS pooled property fund is classified in the accounts as a Level 2 investment in the fair value hierarchy. Work done in year means this should be classified as Level 3. This disclosure has not been updated in the accounts. The holding is £4.3 million which is below our performance materiality threshold, and we are satisfied this is not material to the understanding of investment assets in the accounts.

# Appendix 3

## Supporting national and performance audit reports

Report name	Date published
<a href="#">Local government budgets 2024/25</a>	15 May 2024
<a href="#">Scotland's colleges 2024</a>	19 September 2024
<a href="#">Integration Joint Boards: Finance and performance 2024</a>	25 July 2024
<a href="#">The National Fraud Initiative in Scotland 2024</a>	15 August 2024
<a href="#">Transformation in councils</a>	1 October 2024
<a href="#">Alcohol and drug services</a>	31 October 2024
<a href="#">Fiscal sustainability and reform in Scotland</a>	21 November 2024
<a href="#">Public service reform in Scotland: how do we turn rhetoric into reality?</a>	26 November 2024
<a href="#">NHS in Scotland 2024: Finance and performance</a>	3 December 2024
<a href="#">Auditing climate change</a>	7 January 2025
<a href="#">Local government in Scotland: Financial bulletin 2023/24</a>	28 January 2025
<a href="#">Transparency, transformation and the sustainability of council services</a>	28 January 2025
<a href="#">Sustainable transport</a>	30 January 2025
<a href="#">A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study</a>	20 February 2025
<a href="#">Additional support for learning</a>	27 February 2025
<a href="#">Integration Joint Boards: Finance bulletin 2023/24</a>	6 March 2025
<a href="#">Integration Joint Boards finances continue to be precarious</a>	6 March 2025
<a href="#">General practise: Progress since the 2018 General Medical Services contract</a>	27 March 2025
<a href="#">Council Tax rises in Scotland</a>	28 March 2025

# Scottish Borders Council Pension Fund

2024/25 Annual Audit Report



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