Falkirk Council
Chief Executive Office
(Finance Services)

Falkirk Council Pension Fund

Local Government Pension Scheme

Funding Strategy Statement

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Version Control

Version Number	Version Date	Reason for Change
1.1	15/03/06	Initial Strategy Statement.
2.1	20/02/09	Strategy updated following the results of the 2008 Valuation.
2.2	27/10/10	Consequential changes to update references to: The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008; and The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. No changes to the Strategy.
3.1	12/12/11	Strategy updated following the results of the 2011 Valuation.

1. Introduction

Overview

1.1 The Funding Strategy Statement ("the FSS") has been prepared in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 ("the Regulations"). The Statement describes the strategy of Falkirk Council in its capacity as Administering Authority ("the Administering Authority") for the funding of the Falkirk Council Pension Fund ("the Fund").

1.2 As required by Regulation 31(3)(a) of the Regulations, the Statement has been prepared having regard to guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel in March 2004.

1.3 The FSS is reviewed at least every three years to coincide with triennial valuations.

1.4 The FSS is a summary of the Fund's approach to funding the pension scheme liabilities. It is not an exhaustive statement of policy on all issues. Further information is available in the Pensions area of www.falkirk.gov.uk or by contacting the Pensions Manager on 01324-506304.

1.5 Nothing in the FSS can override the Regulations or the terms of an Admission Agreement.

Purpose of the Statement

1.6 The three main purposes of this Statement are:

- To establish a clear and transparent strategy for the Fund, which will identify how employer's pension liabilities are best met going forward;
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible; and
- To take a prudent longer term view of funding the Fund's liabilities;

1.7 These objectives are desirable individually, but may be mutually conflicting.

1.8 This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

Consultation

1.9 In accordance with Regulation 31(3)(b) of the Regulations, all employers participating within the Fund have been consulted on the contents of this Statement and their views have been considered in its formulation.

1.10 In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles ("SIP") published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 ("the Investment Regulations").

1.11 The Fund Actuary, Hymans Robertson, has also been consulted on the contents of this Statement.

2. Aims and Purposes

Purpose of the Fund

2.1 The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- Receives contributions, transfer payments and investment income; and
- Pays scheme benefits, transfer payments, and administration costs (including professional fees).

Aims of the Funding Policy

2.2 The aims of the FSS in relation to the Fund Strategy are set out below.

- To ensure the long term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the participating employers and to the taxpayers;
- To manage employers' liabilities effectively;
- To use reasonable measures to reduce the risk to scheme employers, and ultimately the taxpayers, from an employer defaulting on its pension obligations;
- To maximise the income from investments within reasonable risk parameters; and
- To address the different characteristics of the various employers to the extent that this is practical and cost effective.

3. Responsibilities of the Key Parties

3.1 The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Employers and the Fund Actuary.

Administering Authority

3.2 The Administering Authority should:

- Collect scheme contributions; ensure they have been received by the due date; and take pro-active steps where contributions are not received or are received late;
- Invest surplus monies in accordance with the Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund Actuary.
- Prepare and maintain a SIP and an FSS in consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding, and amend the SIP and FSS if required.
- Maintain policies relating to the exercise of discretions within the regulatory framework

Individual Employers

3.3 Employers should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including employer contributions as determined by the Actuary, promptly by the due date;
- exercise discretions within the regulatory framework and ensure the Administering Authority has copies of current policies covering those discretions;
- pay additional contributions in accordance with the regulations and agreed arrangements in respect of enhancements to membership and early retirement strain; and
- notify the Administering Authority promptly of all changes to membership, or other changes (such as pay settlements) which could affect future funding.

The Fund Actuary

3.4 The Actuary should:

- prepare valuations and set employer contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers; and

- provide general advice in relation to the ongoing management of the Fund, including preparation of the FSS.

4. Solvency Issues

Solvency and Target Funding Levels

4.1 The Fund Actuary is required to report on the "solvency" of the whole fund at least every three years.

4.2 "Solvency", for ongoing employers, can be measured by comparing the market value of the fund's assets, attributable to the employer at a given date, with the assessed value of the employer's liabilities, calculated using the Actuary's ongoing funding basis appropriate to the valuation date. The assets are the investments held by the Fund and the liabilities are the benefits in payment or benefits that will be put into payment in respect of scheme membership already earned. The ratio of the assets to the liabilities is known as the funding level.

4.3 The ongoing funding basis is the product of the various financial and demographic assumptions made by the Actuary and agreed with the Administering Authority.

4.4 The demographic assumptions are intended to be best estimates of future experience in the Fund (e.g. mortality rates and rates of withdrawal from the scheme). Some allowance is made for expected future improvement in life expectancy.

4.5 The key financial assumption is the anticipated real return on Fund investments (i.e. the return net of inflation). Whilst having regard to the yields available on long-dated government bonds, the Administering Authority has also agreed with the Fund Actuary that the assumptions will make allowance for the higher long-term returns that are expected on the investments actually held by the Fund. The Administering Authority however understands the risks of such an approach if those additional returns fail to materialise.

4.6 The nominal return available from investing in index linked Government Bonds at 31st March, 2011 was 4.3% per year. Following discussions with the Fund Actuary, it has been assumed that the Fund will achieve an average rate of return of 1.6% per year in excess of the return on index linked Government Bonds. This return, which amounts to 5.9% in total, takes account of all asset classes and reflects the predominantly equity based investment strategy of the Fund.

4.7 The Administering Authority prudentially seeks to secure the solvency of the Fund and its strategy is expected to achieve a funding level of 100% for all ongoing employers over the longer term. The position in relation to departing employers is set out in Section 5.26 to 5.31.

Derivation of Employer Contributions

4.8 Employer contributions are normally made up of two elements

a) the estimated cost of future benefits being accrued, referred to as the *"future service rate"*, plus

b) a *"past service adjustment"* to take account of the funding position of accrued benefits. Where there is a deficit in the funding level, the past service adjustment will mean an additional contribution for employers, whereas a surplus in the funding level could lead to a contribution reduction. In each case a decision would have to be made to determine over what period a deficit was to be recovered or a surplus amortised.

4.9 The Fund Actuary is required by the regulations to report the *Common Contribution Rate* for all employers. This combines items (a) and (b) above. For the purpose of calculating the Common Contribution rate, the surplus or deficit under (b) is normally spread over a period of 20 years.

4.10 The Fund Actuary is also required to adjust the Common Contribution Rate for circumstances that are deemed "peculiar" to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. All of this means that the Common Contribution Rate has a notional quality to it since the rate for each employer will be separately calculated taking account of individual past service adjustments, deficit spreading periods and any other factors deemed appropriate by the Administering Authority on the advice of the Fund Actuary.

4.11 In the case of an employer with a limited or no covenant, the Administering Authority can require the payment of a regular additional contribution in order to target solvency on a more prudent basis and improve the security of the Fund.

Future Service Contribution Rates

4.12 The future service element of the employer contribution rate is calculated on the ongoing funding basis, with the aim of ensuring that sufficient assets are built up to meet benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted.

4.13 For Employers who admit new entrants, the cost of providing future service benefits will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. This is known as the Projected Unit Method of valuation. If future experience is in line with assumptions, and the employer's membership profile remains constant, this rate should be broadly stable over time. If the membership of an employer matures (e.g. because of lower recruitment, increased staff retention) the rate would rise.

4.14 For Employers who do *not* admit new entrants, there is an assumption that the average age of their employee members will increase over time, and hence, all other things being equal, the future service rate will increase as the membership ages. To give more long term stability to such employers' contributions, the Attained Age funding method has been adopted. This valuation method will limit the degree of future contribution rises by requiring higher rates at the outset.

4.15 Those employers for whom the Attained Age method will be used are shown in Appendix A.

4.16 Both funding methods are described in the Actuary's report on the 2011 valuation.

4.17 Both derivations of future service rates will include allowances for administration expenses (to the extent that they are borne by the Fund) and for benefits payable on death in service/ill health retirement.

4.18 The facility exists for a fund employer to insure against the risk of additional and unexpected liabilities arising from the ill health retirement of members by taking out insurance cover. Where an employer insures the ill health retirement risk in this way, the actuary, subject to any other overriding considerations, will authorise a reduction in the employer's future service rate.

Asset Share Calculations for Individual Employers

4.19 The Administering Authority does not account for each employer's assets separately.

4.20 In assessing the notional share of the Fund attributable to each employer, the Actuary has used, as a starting point, the funding position of each employer at 31/3/2008 or date of joining the Scheme if later. The Actuary has then apportioned the assets of the whole fund between the employers as at 31 March 2011 using the income and expenditure figures provided for certain cash flows for each employer over the period from 1st April, 2008 to 31st March, 2011. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as “analysis of surplus”. The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is however capable of verification.

4.21 The Administering Authority recognises the limitations of this approach to determining an asset share, but having regard to the extra administration costs of maintaining a more sophisticated system, it considers that the Fund Actuary’s approach addresses the risks of cross-subsidisation to an acceptable degree.

5. Stability of Employer Contributions

Options for Stability

5.1 A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These are:

- the pooling of contributions amongst employers with similar characteristics;
- the use of extended deficit recovery periods;
- the use of surplus spreading periods;
- the phasing in of contribution increases;
- the phasing in of contribution reductions; and,
- the capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation")

Pooling / Grouping

5.2 Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority allows some employers to be treated as a pool for the purposes of setting contribution rates

5.3 The Administering Authority recognises that pooling can give rise to cross subsidies from one employer to another. This can arise from the membership profiles of the various employers and their differing experiences. However, over longer time periods it would be expected that the experience will even out between employers and that each employer in a pool will, on average, pay a fair level of contributions. The benefit of pooling is that it should produce a less volatile contribution rate on average for each individual employer. Although individual funding positions are not taken into account in setting contribution rates for pooled employers, the Fund Actuary tracks the individual employer positions at each valuation.

5.4 The Administering Authority's policy in relation to pooling is to consider the position carefully at each valuation and to record details of the pooled employers in the FSS. Where a group of employers have similar characteristics and experience, a pooled contribution rate will be considered. If an employer objects to being pooled, it will be offered its own contribution rate.

5.5 Following discussions between the Administering Authority and the Actuary, the following groups have been identified:

Local Government Pool

This comprises Clackmannanshire, Falkirk and Stirling Councils, together with the Central Scotland Joint Valuation Board. The four bodies are all admitting new members; display broadly similar membership profiles; have strong covenants; and are likely to be subject to similar wage and other employment pressures. It is considered therefore that a combined single rate should be applied. Individual asset shares will, however, be tracked for each of the employers within the pool.

Small Admitted Bodies Pool

Any Community Admission Body that has less than 30 members; that has not made an additional employer contribution; and is not closed to new members will be placed in the Small Admitted Bodies Pool. Employers in this pool will pay a combined rate based on the membership profile and experience of the pool.

Employers Not Pooled – Rates Assessed Individually

This group is made up of employers whose size or experience warrants their contribution rate being assessed individually. It is made up of bodies not falling into the Local Government Pool or the Small Admitted Bodies Pool and includes:

- all transferee admission bodies (i.e. best value contractors);
- all bodies closed to new members;
- all bodies who have made an additional employer contribution;
- bodies with more than 30 members (at 31st March, 2005); and
- any new bodies meeting the above criteria

5.6 Details of the employer groupings are shown in Appendix C.

Deficit Recovery period

5.7 The Administering Authority instructs the Actuary to adopt specific deficit recovery periods for all employers in deficit when calculating their contributions.

5.8 Following discussion with the Actuary, it is considered that the Administering Authority should target the recovery of any deficit over a period not exceeding 20 years. Such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, a recovery period of 20 years is not appropriate for all employers. The policy of the Administering Authority, which takes account of the reliability of covenants, is set out below:

Type of Employer	Maximum Length of Deficit Recovery Period
Scheduled Bodies	A period not exceeding 20 years
Community Admission Bodies admitted before 16/5/1975	A period not exceeding 20 years (with any cessation deficit being shared across the participating Councils)
Community Admission Bodies admitted after 15/5/1975 with a guarantor or providing a community wide service across Central Scotland	A period not exceeding 20 years (with any cessation deficit being met by the guarantor or, where one is not available, shared across the participating Councils)
Community Admission Bodies admitted after 15/5/1975 with neither a guarantor nor providing a community wide service across Central Scotland	A period not exceeding 10 years
Other Community Admission Bodies	A period equal to the weighted average of the period during which the body's employee members are expected to be active members of the Fund.

Type of Employer	Maximum Length of Deficit Recovery Period
Closed Bodies	The period during which the body's remaining members are expected to be active members of the Fund. Subject to ratification by the Actuary, the recovery period may be extended depending on the ability and willingness of the employer to make good the deficit over a longer time period.
Transferee Admission Bodies	The period remaining to the end of the employer's contract (or the weighted average of the period during which the body's employee members are expected to be active members of the Fund if shorter)

5.9 Where an admission body obtains a guarantee from a statutory body participating in the Fund, the Administering Authority may re-assess the recovery period used.

5.10 The deficit recovery period generally starts on the date from which revised contributions are payable following the most recent triennial valuation. The Administering Authority would normally expect the same period to be used at successive triennial valuations, but reserves the right to propose alternative spreading periods, for example to improve the stability of contributions.

Surplus Spreading Periods

5.11 Subject to stabilisation constraints, any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contributions.

5.12 However, in view of the requirement to keep employer contribution rates as nearly constant as possible, and the ongoing turbulence experienced by financial markets since the valuation date the Administering Authority, in consultation with the Fund Actuary, considers that:

- any existing surpluses should be retained in the Fund at present; and
- no employer in surplus be permitted to contribute at less than the future service rate.

Phasing in of Contribution Rises

5.13 Transferee Admission Bodies are not eligible for the phasing in of contribution rises. Other employers may opt to phase in contribution rises over a period of three years, subject to payment generally being not less than the future service rate for that employer.

5.14 Employers should recognise that the phasing in of contribution rises will result in a loss of contribution and investment income for the Fund. Ultimately, this could have the effect of increasing contributions in the longer term.

5.15 The contributions rates specified in the Valuation report are minimum contributions for each employer. Individual employers may opt to pay higher regular contributions or additional lump sum contributions.

Phasing in of Contribution Reductions

5.16 The period over which contribution reductions may be phased in will be a matter for consultation between the Administering Authority and the Fund Actuary.

5.17 An employer who is still in deficit will not be permitted to take a contribution reduction.

Stabilisation

5.18 There can be occasions when, despite the deployment of contribution smoothing mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

5.19 In view of this possibility, the Administering Authority commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicated that it was justifiable to limit employer contribution rate changes to +/- 0.5% of pay per annum from 1 April 2009, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach;
- the employer contribution rate is at least equal to the employer share of the cost of the benefits accruing to its employee members from 1 April 2009;
- the employer contribution rate is at least equal to the whole fund contribution rate modelled by the actuary, and
- there are no material events which would render the stabilisation unjustifiable.

5.20 The actuarial modelling discloses that there is a six in ten chance of the Fund regaining its fully funded position after 18 years, and this is slightly lower if stabilisation is applied. Whilst the Administering Authority would prefer to have the luxury of a higher chance of attaining 100% funding, it recognises that in the modelling the Actuary has allowed for market conditions as at 31 October 2008 and thus the chance of achieving 100% funding would have been higher had market conditions not deteriorated markedly after the valuation date. The actuary considers that the results of the modelling undertaken in October, 2008 remain valid in 2011 and for the immediate future.

5.21 In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised“ and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

5.22 The list of employers whose rates have been stabilised is set out in Appendix D.

Legacy Employers

5.23 Over the course of time, some fund employers may cease to exist leaving liabilities to be met by the Fund. These employers are known as legacy employers.

5.24 Legacy employers include:

- Councils wound up as a result of local government re-organisations, in which case, scheme liabilities are inherited by the relevant successor body; and
- Admission bodies who have ceased to exist, in which case, the liabilities become the responsibility of the Fund unless a cessation payment has been made by a guarantor or by the body in question.

5.25 A list of legacy employers and their successor bodies is set out in Appendix B.

Cessation of Admission Agreements

5.26 Admission Agreements for Transferee Admission Bodies (i.e. Contractors) are assumed to expire at the end of the contract.

5.27 Admission Agreements for other employers are generally assumed to be open-ended until the last active member leaves employment. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can be terminated at any point.

5.28 When the Admission Agreement for an organisation ceases to have effect (through the express termination of the agreement by one of the parties; the last active member leaving employment or the admission body being wound up), the Fund Actuary will carry out a cessation valuation as required under Regulation 34(2) of the Regulations. The Administering Authority will then pursue the recovery of any deficit from that organisation. The exception to this is where a successor organisation, which is also a participating employer in the Fund, formally adopts the deficit of the closing organization as its own.

5.29 If an employer (other than a transferee admission body) fails and deficit contributions cannot be recovered from the organisation or from a guarantor or from a sponsoring body, all employers in the Fund must pay revised contributions to meet the shortfall. Where a Pre 1975 Community Admission Body fails, any deficit will be recovered from Clackmannanshire, Falkirk and Stirling Councils.

5.30 The Administering Authority has adopted a policy of requiring admission bodies (other than transferee admission bodies) to obtain a guarantor. An exception to this is where a robust letter of comfort has been given to the Fund from a revenue raising source, (e.g. the Scottish Government).

5.31 The position is different for transferee admission bodies. If a transferee admission body fails and cannot pay the contributions due, then the bond or indemnity which has been set up by the employer will be called upon, failing which, the Scheme employer that is party to the admission agreement must pay revised contributions to meet the shortfall.

Early Retirement Costs

5.32 The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. In relation to non-ill health cases, employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits will be paid. The “strain on the fund” costs are determined using tables provided by the Actuary.

5.33 The Fund monitors each employer's ill health experience on an ongoing basis. If the strain cost of the ill health retirements exceeds the allowance made by the actuary at the previous valuation, the Actuary will be notified and this may lead to additional employer contributions being required. Employers may defray the cost of ill health retirement by procuring a suitable insurance policy against the risk of ill health retirement.

General

5.34 If investment experience and market conditions transpire to be more favourable than has been assumed over the inter-valuation period, the Actuary, in consultation with the Administering Authority, may seek to rebuild margins and adopt an even more prudent funding basis at a subsequent valuation to help smooth employer contribution rates and further protect the solvency of the Fund.

6. Links to Investment Strategy

6.1 Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority after taking investment advice.

Investment Strategy

6.2 The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

6.3 The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2011, the proportion held in growth assets including equities, infrastructure, total return funds and property was 81% of the total Fund assets.

6.4 The investment strategy of lowest risk - but not necessarily the most cost-effective in the long-term - would be 100% investment in index-linked government bonds.

6.5 The Fund's benchmark includes a significant holding in growth assets in the pursuit of long term higher returns than from index-linked bonds. This approach recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

6.6 The same investment strategy is followed for all employers.

Consistency with Funding Basis

6.7 The funding basis anticipates an overall future return from all assets held by the Fund of 1.6% per year in excess of the return available from investing in fixed interest government bonds.

6.8 In the opinion of the actuary, there is a better than 50:50 chance of the above returns being achieved when measured over the long-term (i.e. periods in excess of 20 years). However, in the short term - such as the three yearly assessments at formal valuations there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. For employers whose contribution rates are not explicitly "stabilised", the other contribution smoothing measures described in Section 5 (e.g. pooling, phasing and extended deficit recovery periods) will damp down, but not remove, the effect on employers' contributions.

6.9 The Fund does not hold a contingency reserve to protect it against the volatility of equity Investments.

Balances between risk and reward

6.10 During 2010/11, the Administering Authority and the Fund Investment adviser considered the balance between risk and reward and implemented a revised Investment strategy involving an increased allocation in alternative investments with the aim of improving the diversification of the portfolio.

6.11 The Administering Authority, in conjunction with the Fund Investment Advisor and Actuary will review the investment strategy from time to time. This will include using Asset-Liability techniques and focussing on areas which are central to the management of risk and reward – Prudence, Affordability, Stability and Stewardship.

Inter-valuation Monitoring of Funding Position

6.12 The Administering Authority will monitor the funding level between triennial valuations. If it is considered appropriate, an indicative interim valuation will be carried out. However, it is expected that ongoing monitoring tools and reports will be sufficient to give employers' advance warning of changes that may be required immediately or following the next triennial valuation. This should allow improved budgeting decisions to be made and allow employers to take informed decisions on whether to pay additional contributions.

7. Key Risks and Controls

7.1 The Administering Authority has an active risk management programme in place. The risks and counter measures used by the Administering Authority are summarised below under the following headings:

- Financial;
- Demographic;
- Regulatory; and
- Governance

Financial Risks

Risk	Control Mechanisms
Fund Assets fail to deliver returns in line with the anticipated returns	*Only anticipate long term returns on a relatively prudent basis to reduce risk of under-performance* *Analyse progress at triennial valuations* *Undertake inter-valuation monitoring*
Inappropriate long term investment strategy	*Set Fund-specific benchmark informed by Asset-Liability modelling of liabilities*
Fall in return on Government bonds, leading to rise in liabilities	*Inter-valuation monitoring* *Some investment in bonds to mitigate risk*
Investment Manager under-performance relative to benchmark	*Regular analysis of market performance and managers relative to their benchmarks*
Pay and Price inflation significantly more than anticipated	*Focus of valuation is on real return on assets, net of pay and price increases* *Inter valuation monitoring* *Employers are required to notify the Administering Authority of significant pay settlements under Section 3.3. of the FSS*
Effect of increase in contribution rates on employers service delivery obligations	*Mitigate impact through deficit spreading and phasing in of increases*
Effect of employers incorrectly applying the rules relating to the deduction of employee contributions	*Employers to review total contributions deducted for reasonableness*

Demographic Risks

Risk	**Control Mechanisms**
Pensioners living longer	*Set mortality assumptions with some allowance for future increases in life expectancy* *Fund Actuary to advise on new trends*
Increasing costs of early retirement	*Employers are charged the capital cost of early retirements* *Ill heath experience is monitored* *Ill Health Insurance is available*

Regulatory Risks

Risk	**Control Mechanisms**
Improvements to Scheme Benefits	*All consultation papers are considered and commented upon as appropriate* *Administering Authority is alert to the potential creation of additional liabilities* *Significant details are shared with scheme employers by e-mail, letter, the Council website, the Annual Pensions Conference, and, from May, 2012 through representation on the Pensions Committee and Pensions Panel* *Administering Authority and Scheme Employers can make representations to Scottish Ministers as appropriate*
Changes to national pension requirements	

Governance Risks

Risk	Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership	*Membership levels monitored annually* *Employers reminded of their pensions obligations annually* *Suite of programs checking validity of year end contribution data*
Administering Authority not advised of employer closing to new members	
Administering Authority not advised of starters, leavers, changes in part time status, etc, leading to incorrect benefit statements and miscalculation of scheme liabilities	
An employer ceasing to exist with insufficient funding or adequacy of a bond	*Seek a funding guarantee from scheme employer or external body* *Advise prospective employer of its obligations* *Vet employers before admission* *Seek a bond whenever possible*

Appendix A

Employers for whom the Attained Age method will be used

University of Stirling

Visit Scotland (in respect of the former Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board)

Scottish Police Services Authority

Valad Management Ltd

Amey

Open Secret

Appendix B - Legacy Employers

Employer Name	Inheritor of liability
Central Regional Council	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Clackmannan District Council	Clackmannanshire Council
Falkirk District Council	Falkirk Council
Stirling District Council	Stirling Council
Falkirk College	Forth Valley College
Clackmannan College	Forth Valley College
Snowdon School for Girls (Old)	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
St Ninians School	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
CESU	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Bo'ness Heritage Trust	Falkirk Council
Stirling University Innovation Park Ltd	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Community Training and Development Unit	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Falkirk Women's Technology Centre	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Bo'ness Development Trust	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Langlees Community Dev. Project	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Careers Central Ltd.	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Scottish Water and Sewerage Customers	Water Industry Commissioner
St Mary's Episcopal P.S.	Stirling Council
Tourist Board Training	Visit Scotland
Clackmannanshire Leisure Trust	Clackmannanshire Council
Scottish Executive (NHS Recharge)	Split 50:30:20 between Falkirk, Stirling and Clacks Councils
Ex-CRC (Water and Drainage Staff)	Split 50:30:20 between Falkirk, Stirling and Clacks Councils

Appendix C

Employer Groups

The Local Government Group

Clackmannanshire Council
Falkirk Council
Falkirk Community Trust Limited
Stirling Council
Central Scotland Joint Valuation Board

Small Admitted Bodies Group

Alsorts
Association of Scottish Colleges
Central Scotland Council for Racial Equality
Central Carers Association
Cowane's Hospital
McLaren Community Leisure Centre
Playplus
Smith Art Gallery
Snowdon School Ltd
Stirling District Tourism Ltd
Water Industry Commissioner for Scotland
Waterwatch Scotland

Individually Assessed Group

Active Stirling Ltd
Amey
Ballikinrain School
Dollar Academy Trust
Central Scotland Fire and Rescue Service
Central Scotland Police
Ceteris
Forth and Oban Ltd (Stirling Schools Project)
Forth Valley College
Forth Valley GIS Ltd
Open Secret
Raploch URC
Scottish Children's Reporter Administration
Scottish Environment Protection Agency
Scottish Police Services Authority
Scottish Society for Autism
Seamab School
Stirling Enterprise Park Limited
Strathcarron Hospice
University of Stirling
Valad Management Ltd
Visit Scotland (in respect of the former Argyll, The Isles, Stirling, Loch Lomond & Trossachs Tourist Board)

Appendix D

Employers with Stabilised Rates

Clackmannanshire Council
Falkirk Council
Falkirk Community Trust Limited
Stirling Council
Central Scotland Fire and Rescue Service
Central Scotland Joint Valuation Board
Central Scotland Police
Strathcarron Hospice
Forth Valley College

Appendix E

Employer Contribution Rates

The following two pages consist of an extract of the Statement of the Rates and Adjustments Certificate from the Actuarial Valuation of the Fund as at 31st March, 2011.

Statement to the Rates and Adjustments Certificate

The Common Rate of Contribution payable by each employing authority under regulation 32(4)(a) of the Administration Regulations for the period 1 April 2012 to 31 March 2015 is 20.5% of pensionable pay (as defined in **Appendix B**).

Individual Adjustments are required under regulation 32(4)(b) of the Administration Regulations for the period 1 April 2012 to 31 March 2015 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer code	Employer name	Contributions currently being paid in 2011/12	Minimum Contributions for the Year Ending		
			31 March 2013	31 March 2014	31 March 2015
	Council Pool				
52	Clackmannanshire Council	19.0%	19.5%	20.0%	20.5%
53	Falkirk Council	19.0%	19.5%	20.0%	20.5%
54	Stirling Council	19.0%	19.5%	20.0%	20.5%
57	Central Scotland Joint Valuation Board	19.0%	19.5%	20.0%	20.5%
77	Falkirk Community Trust Ltd[9]	-	19.5%	20.0%	20.5%
	Small Admitted Bodies Pool				
18	Snowdon School Ltd	21.9%	21.9%	21.9%	21.9%
22	Association of Scottish Colleges	21.9%	21.9%	21.9%	21.9%
24	Cowane's Hospital	21.9%	21.9%	21.9%	21.9%
28	Smith Art Gallery	21.9%	21.9%	21.9%	21.9%
31	Alsorts	21.9%	21.9%	21.9%	21.9%
36	Central Carers Association	21.9%	21.9%	21.9%	21.9%
37	Central Scotland Regional Equality Council Ltd	21.9%	21.9%	21.9%	21.9%
61	Water Industry Commissioner for Scotland	21.9%	21.9%	21.9%	21.9%
63	Plus	21.9%	21.9%	21.9%	21.9%
65	McLaren Community Leisure Centre	20.7%	21.9%	21.9%	21.9%
67	Stirling District Tourism Ltd	21.9%	21.9%	21.9%	21.9%
	Individual Employers				
5	Dollar Academy Trust	19.8%	19.8%	19.8%	19.8%
7	Stirling University[5]	24.3% plus £85.4k	24.3% plus £202K	24.3% plus £204k	24.3% plus £47k
11	Ballikinrain School	19.2%	19.9%	20.7%	21.4%
13	Strathcarron Hospice	18.6%	19.1%	19.6%	20.1%
14	Stirling Enterprise Park Limited	22.8%	22.8%	22.8%	22.8%
15	Scottish Autism	17.1%	17.1%	17.1%	17.1%
19	Ceteris	25.8%	25.8%	25.8%	25.8%
29	VisitScotland	21.1% plus £88.1k	21.6% plus £89.0k	21.6% plus £89.9k	21.6% plus £94.5k
34	Scottish Children's Reporter Administration[6]	18.3%	18.3%	17.6%	17.6%
38	Scottish Environment Protection Agency[7]	19.0%	17.0%	17.0%	18.0%
55	Central Scotland Police	19.0%	19.5%	20.0%	20.5%
56	Central Scotland Fire and Rescue Service	19.0%	19.5%	20.0%	20.5%
59	Open Secret	20.2%	22.4%	22.4%	22.4%
64	Seamab School	18.4%	19.1%	19.1%	19.1%
66	Forth Valley College	18.4%	18.9%	19.4%	19.4%
68	Active Stirling Ltd	17.7%	17.7%	17.7%	17.7%
69	Forth and Oban Limited (Stirling Schools Contract)[8]	19.5%	18.8%	18.8%	18.8%
70	Forth Valley GIS Ltd	17.3%	17.3%	17.3%	17.3%
71	Raploch URC	25.8%	25.8%	25.8%	25.8%
72	Scottish Police Services Authority	21.8%	21.8%	21.8%	21.8%
74	Valad Management (UK) Ltd	22.2%	22.2%	22.2%	22.2%
75	Amey (Clackmannanshire Schools)	22.8%	22.8%	22.8%	22.8%

Employers with no actives

Employer code	Employer name
	Employers with No Actives
1	Central Regional Council[1]
2	Clackmannan District Council[2]
3	Falkirk District Council[3]
4	Stirling District Council[4]
9	Snowdon School for Girls (Old)[1]
10	St Ninians School[1]
16	CESU[1]
23	Stirling University Innovation Park Ltd[4]
25	Community Training and Development Unit[1]
26	Falkirk Women's Technology Centre[1]
27	Bo'ness Development Trust[1]
32	Langlees Community Dev. Project[1]
33	Careers Central Ltd.[1]
39	Scottish Water and Sewerage Customers Council[1]
58	St Mary's Episcopal P.S.[4]
62	Clackmannanshire Leisure Trust[2]
90	Ex CRC[1]
92	North Lanarkshire Council[1]
93	Ex Stirling County (NHS Recharge)[1]
99	Ex CRC (Scottish Water)[1]

[1] The assets and liabilities attributable to these bodies have been shared amongst the Councils in agreed proportions.

[2] Clackmannanshire Council has assumed responsibility for these employers' liabilities.

[3] Falkirk Council has assumed responsibility for these employers' liabilities.

[4] Stirling Council has assumed responsibility for these employers' liabilities.

[5] The deficit spread period for Stirling University is the future working lifetime of the remaining active member, which is less than three years, so the monetary amount paid towards the deficit in the year to 31 March 2015 is less than in the previous years.

[6] The contribution rates calculated for Scottish Children's Reporter Administration based on their valuation position as at 31 March 2011 were 18.3% per annum from 1 April 2012 to 31 March 2015. The contribution rates were reduced to the rates certified in the table above to reflect a lump sum payment of £150k made in March 2011.

[7] The contribution rates calculated for Scottish Environment Protection Agency based on their valuation position as at 31 March 2011 were 19.0% per annum from 1 April 2012 to 31 March 2015. The contribution rates were reduced to the rates certified in the table above to reflect a lump sum payment of £1.5m made in March 2011.

[8] Forth and Oban Limited are paying a higher rate for 2011/12 than that certified at the 2008 valuation (19.5% compared to a certified rate of 18.7%). The Forth and Oban Limited rate has been set at the future service rate of 18.8% since this is above the originally certified rate.

[9] Falkirk Community Trust was admitted to the Fund on 1 July 2011. The contribution rate for this employer has been set in line with the contribution rate for Falkirk Council, as per the Funding Strategy Statement.

Further notes:

- Contributions should be paid into Falkirk Council Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations.
- Further sums should be paid to the Fund to meet the costs of any non-ill health early retirements and/or augmentation (i.e. additional membership or additional pension) using methods and factors issued by me from time to time, or GAD guidance if I consider it to be appropriate.
- In addition, further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within my assumptions.
- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time, and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

Ill health liability insurance

- Note that, if an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the administering authority, then their Minimum Total Contribution Rate may be reduced by the lower of their insurance premium and their ill-health budget (as set out in Appendix I), for the period the insurance is in place.

Stabilisation

- The following employers have had their contribution rates stabilised following a separate modelling exercise that I carried out on their behalf:
  - Clackmannanshire Council
  - Falkirk Council
  - Stirling Council
  - Central Scotland Fire and Rescue Service
  - Central Scotland Joint Valuation Board
  - Central Scotland Police
  - Strathcarron Hospice
  - Forth Valley College