Falkirk Council
Pension Fund
Audited Annual Reports & Accounts 2021-22

Falkirk Council

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Foreword from the Chair of Pensions Committee

As Chair of the Pensions Committee with responsibility for overseeing the investment management and administration of the Falkirk Council Pension Fund (“the Fund”), I am pleased to introduce the 2021/22 Annual Report and Accounts.

Can I begin by offering my best wishes to all readers of the Accounts; to Committee and Board members; the Pensions team; scheme members; and all those associated with the business of the Fund.

We have seen an unprecedented period of uncertainty over the last year and continue to operate in a period of rapid change. Whether social, political, technological or climatic, which impact everyone, to those more specific to us as a Fund. Change and uncertainty are all around us bringing opportunities and risks that demonstrate the need for our robust approach to protecting our Pension Fund members and employers, investing responsibly and ensuring good governance.

The Russian invasion of Ukraine sent a shock wave throughout the world. The scale of the tragedy and human misery is almost unimaginable, with death and destruction being the backdrop to millions of people fleeing their homes to seek refuge in neighbouring countries and throughout Europe.

Sanctions have been imposed on Russian oligarchs and leaders to bring the invasion to an end. These financial measures are designed to damage Russia’s economy and penalise President Putin, high-ranking officials and people who have benefitted from his regime.

Unfortunately, these sanctions are not without collateral damage and while the value of the rouble slumps and Russia’s inflation rate soars, we face a cost of living crisis arising predominantly from global supply chain issues and surging energy costs. My thoughts are, therefore, with those people in the UK facing financial difficulty as well as the people of Ukraine and their battle to defend their country.

As a body that strives to generate investment returns to help pay for member benefits, the uncertainty within the financial markets has presented challenges and I am delighted to report how successfully the Fund has responded to these challenges.

Our Investment Strategy is designed to both responsibly manage risks and deliver strong (real) returns that grow to cover cashflows over the longer term. The last Valuation showed the Fund to be in a healthy state with a funding level of 94% at 31 March 2020. Pleasingly, this is estimated to have risen further with our asset value at 31 March 2022 being £3.2 bn and performance over the year an excellent 13.1% (exceeding benchmark by 6.9%). Our average annual performance over the last 5 years has been 7.7%. Our successful financial performance is supported by our commitment to investing prudently which we believe will deliver sustainable, long-term returns.

The long-term nature of the Fund is the reason why it can still afford to take a long-term view when it is investing. This is because it remains open to new members and is sponsored by employers that are mostly Government backed or have revenue raising powers. The Fund also remains cash flow positive and so is under no pressure to be a forced sellers of assets in times of market disruption. In these unpredictable times, the Fund's approach of holding a well-diversified range of assets including equities, property, infrastructure and bonds continues to prove a sound strategy.

I know that the Fund's role in trying to safeguard our environment from climatic change and lower our reliance on fossil fuels is also a top priority for many of our members. I can confirm that the Fund remains committed to playing an active part in the transition to a lower carbon world. We are members of several lobbying organisations which argue for a Just Transition and our Statement of Responsible Investment Principles reserves the right to divest from a company failing to address climate risks. We have also engaged the professional services of Hermes EOS to engage constructively with companies and lobby, on our behalf, on strategic and sustainability matters to drive positive outcomes.

Readers of previous Annual Reports will know that the Fund supports the concept of the eleven Scottish LGPS Funds merging into larger entities. Following the 2020/21 engagement with Lothian Pension Fund to look more closely at the risks and opportunities that might be associated with merger discussion has progressed well and continues despite being complex and challenging. I'd like to thank Debbie Macrae for her outstanding service to the Pensions Committee during her tenure as Pensions Manager and welcome her back as a Fund secondee looking at the risks and opportunities that might be associated with a merger.The Committee and Board members also continue to be briefed regularly on the topic.

Finally, in conclusion, can I take this opportunity to thank my colleagues on the Committee and Board for their dedication and efforts during the past year. A particular thanks is due to my predecessor Councillor Adanna McCue who served as the Chair of the Pensions Committee during the year being reported and Simon Hunt, who has stepped down from the Board having served as a stalwart on our Pensions Board. To all readers, I hope you find the Annual Report and Accounts for 2021/22 helpful and informative.

Lorna C Binnie

Councillor Lorna Binnie

Chair of the Pensions Committee

Statement from the Chair of the Pension Board

Twelve months on since the last report and we are all still feeling the impact of the pandemic. Pension staff who have had to maintain an office presence throughout the pandemic, are still partly working from home to provide services for fund members and Committee and Board meetings are still taking place in a virtual environment. However, things are still moving forward.

While the Scheme Advisory Board (SAB) have increased their efforts to undertake a review of the structure of the Scottish Local Government Pension Scheme, building on our history of close collaboration, Falkirk and Lothian Pension Funds have invested time and effort to further explore the possible merger of the two funds. Discussions have progressed well, particularly to the extent the scheme can influence sustainable environmental practices through its investment and voting decisions. We have carried out an investigation of the expected benefits, disadvantages, costs and risks of a merger and this review is now complete and, subject to both City of Edinburgh Council and Falkirk Council agreeing and statutory approvals, would see the merger of the two funds next year. This would see a single fund representing a combined 115,000 members, 98 active employers and £11.3bn of assets.

The Pension Board continues to exercise their principal responsibilities in respect of assisting the Scheme manager with legislative and regulatory compliance of the scheme's governance and administration. Board members have consistently attended Pension Committee meetings and have been given full opportunity to provide their perspective and question the Scheme manager and their advisors on all important matters to ensure appropriate governance. The Board has not had to ask the Committee to review any of its decisions – an indication that the scheme's governance and administration is effective.

Committee and Board members are required to undergo continuous training and development to keep their pensions and other relevant knowledge up to date. For most of the last year, these events have taken place virtually but, I am happy to say, are now moving towards more in-person events.

There has been one change in Board membership. David Morgan has joined the Pension Board as the employer representative from SEPA. He replaces Jennifer Welsh who stood down following the October meeting.

There have also been some personnel changes at Falkirk since the last report. Debbie Macrae has stepped aside as Pensions Manager and Catherine Carruthers has been appointed in her place. Catherine has previously served as Pensions Manager with the Tayside Pension Fund and more recently has been working as the senior LGPS technical adviser with Capita. Bryan Smail, Chief Finance Officer, and Stuart Ritchie, Director of Corporate and Housing Services, have both retired. Stuart is the officer to whom Bryan reported and is the authoriser of the Committee reports. Bryan has been replaced by Amanda Templeman and Stuart has been replaced by Karen Algie. The

continued ability of the Council to deliver the pensions function in view of these, and other forthcoming expected retirements, is one of the key drivers for the merger initiative with the Lothian Fund.

The Russian invasion of Ukraine is an unseen, shocking and disturbing event that has had knock-on implications for global financial markets. Since the start of the invasion, the Fund has received various updates from its investment managers to provide reassurance that they are taking the necessary action to minimise the financial risk to the Fund; to comply with the legal restrictions introduced by sanctions and from an environmental, social, and governance (ESG) perspective, to engage with companies we invest in to understand the extent and implications of their links with Russia. At the time of writing, the Fund's exposure to investment in Russia is virtually zero.

Finally, as Chair of the Board, I would like to thank the entire Pensions Team, my fellow Board members, the Committee and Council Officials, both current and retired, for their outstanding efforts at a time of ever-changing circumstances due to both the pandemic and the potential merger.

Tony Caleary

Chair of the Pension Board

Contact us

Enquiries	
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Website:	www.falkirkpensionfund.org

Management of the Fund

Scheme administrator	Falkirk Council
Fund Officers	Amanda Templeman, Chief Finance Officer Catherine Carruthers, Pensions Manager
Actuaries	Hymans Robertson LLP
Bankers	The Royal Bank of Scotland
Custodian	The Northern Trust Company
Investment Advisers	Joint Investment Strategy Panel incl. independent advisers Kirstie McGillivray, Stan Pearson
Legal Advisers	Lothian Pension Fund (secondment arrangements) Falkirk Council Legal Services
Additional voluntary contributions (AVC) providers	Prudential Standard Life
External Auditor	Ernst and Young LLP 2 St Peter's Square Manchester, M2 3DF

Fund Managers

Equity
Abrdn
Legal and General
Newton Investment Management
Pictet Asset Management
Schroders Investment Management
Wilshire
Other Real Assets
Abrdn
Astatine Investment Partners
Ancala
Ardian
Brookfield Infrastructure
Dalmore Capital
Equitix
Global Infrastructure Partners
Greensphere
Gresham House
Grosvenor Capital

Harbert Investment Management
Hearthstone
Hermes
InfraRed Capital
Innisfree
KKR
Legal & General
Macquarie
Nuveen
Oaktree Capital
Octopus Real Estate
Resonance British Wind
Schroders Investment Management
The Unite Group
UBS
LDI and Gilts
Alcentra
Barings
Blackrock
Madison Capital
Lothian Pension Fund Investments Ltd (LPFI)
Multi Asset
Baillie Gifford

Annual Report and Accounts

This is the Annual Report and Accounts for the Falkirk Council Pension Fund for 2021/22.

The Annual Report has been prepared in accordance with Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018 and the CIPFA Guidance for Local Government Pension Scheme Funds (2019 Edition) entitled "Preparing the Annual Report".

Performance headlines	2018/19	2019/20	2020/21	2021/22
Funding Level	92%	94%*	106%	113%
Admin cost per member in £	22.41	25.96	26.72	26.61
Investment return %	8.5	-6.6	22.3	13.1
Performance v benchmark %	+1.7	-6.9	+0.6	+6.9
External audit outcome	Unqualified	Unqualified	Unqualified	Awaiting

*31 March 2020 was a valuation year where a full Fund valuation was conducted. Funding levels at other year ends are estimated by the actuary by rolling forward from the last valuation. All funding levels are a snapshot on a particular date.

Further information on Investment Performance and Returns can be found in the Investment Performance Section of the Report.

About the Falkirk Council Pension Fund

Falkirk Council is designated as an "Administering Authority" and is required to operate and maintain a pension fund - the Falkirk Council Pension Fund ("the Fund").

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions are made by employee members and by participating employers. The Fund also receives income from its various investments.

The Fund operates under the terms of the Local Government Pension Scheme which is a public service pension scheme governed by the Public Service Pensions Act 2013. Scheme membership is made up of active, deferred, pension credit and pensioner members. To join the scheme as an active member, a person must be employed by a local authority or by a designated body and not be entitled to join another public service pension scheme.

Employers in the Fund are either Scheduled Bodies – in which case they are legally required to offer the Scheme to their employees, or Admission Bodies – in which case the body has applied to participate in the Fund and their application has been accepted.

The larger Fund employers are Clackmannanshire, Falkirk and Stirling Councils, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA) and Scottish Autism. Other employers include several non-profit making charitable bodies located in Central Scotland, as well as two contractors (Amey and Forth & Oban Ltd) to whom school facilities maintenance has been transferred. A full list of Fund employers is given in Appendix 2 and their contributions on page 29.

In addition to Fund employers, key partners include local authorities, actuaries, banks, government agencies, fund managers, legal advisers, corporate governance and litigation specialists, and various other financial institutions.

About the Local Government Pension Scheme (LGPS)

- The LGPS is a nationwide pension arrangement for persons working in local government and is one of the largest schemes in the UK with over six million members.
- Local authorities and certain other public bodies are required by law to operate the Scheme. Other organisations such as charities, non-profit making entities and contractors may apply to join the Scheme.
- The LGPS (Scotland) is the version of the Scheme which applies to local authorities in Scotland. Other versions apply in England and Wales and in Northern Ireland.
- The Scheme consists of around 100 regional pension funds across the UK – one of which is the Falkirk Pension Fund.
- The LGPS is a funded scheme, which means monies are being set aside to pay for benefits as they fall due, thus helping to reduce the costs falling on future generations.
- The LGPS is a defined benefit scheme providing a range of high-quality inflation linked benefits based on members' salaries and, where the member was in service before 1 April 2015, their years of scheme membership. Unlike other forms of pension provision, benefits do not depend on investment performance.
- For more information about LGPS (Scotland), please visit www.falkirkpensionfund.org or www.pensions.gov.scot/local-government

Management Commentary

Summary
The defining events of 2021/22 for the Fund have been the Russian invasion of Ukraine and the continuing uncertainty of lockdowns arising from the Covid-19 pandemic. These events have produced a variety of challenges throughout the year, both micro and macro. Operationally, the Pensions team has been able to continue delivering an efficient and full range of services to stakeholders. Economically, the Fund is in a strong position to weather the storm of global volatility in the financial markets and rising inflation.

During the year, the Fund delivered an investment return of 13.1%, which was more than double the benchmark return of 6.2%. The Fund remains in a healthy condition and is also cash flow positive, so is capable of paying member benefits out of current income as they fall due.

At 31 March 2022, the Fund had assets of £3.2 billion (£2.8 billion at 31 March 2021) and the actuary estimates an increase in funding level to 113% based on rolled forward figures and assumptions adopted at the 2020 Valuation. A strategic investment review to ensure the Fund charts a prudent and appropriate investment course was undertaken in 2021/22. Following the completion of this review a slight alteration to the allocation of LDI (liability driven investment) and Non-Gilt Debt was made, and the Statement of Investment Principles was updated accordingly.

The remainder of this commentary looks at the Fund’s business model, the key themes feeding into 2021/22, and management’s observations on the overall performance and the outlook for the Fund.

Business Model
The day to day running of the Fund is carried out by the in-house Pensions Team whose key objectives are:

- to provide an efficient and cost-effective service that meets members’ needs
- to oversee the safeguarding and prudent investment of Fund assets, and
- to contribute to the good governance of the Fund in compliance with statutory requirements.

The Fund is managed and administered from the Foundry in the Central Business Park, Larbert. However, staff continue to be home and office based in a blended working arrangement.

The Team is managed by a Pensions Manager who reports to the Chief Finance Officer. Accountability is to the Pensions Committee, the Pension Board, Fund Employers and Scheme Members.

The work of the Team covers the following areas of activity:

- Membership and benefits administration
- Investment
- Governance and risk management

- Funding
- Accounting
- Communications

Membership and benefits administration is undertaken internally by the Pensions Team. For more detailed information on this activity, turn to the Scheme Administration Section.

Investment of the Fund's assets is undertaken by a range of specialist managers. Mandates are overseen by the Pensions Team. Investment strategy is set by the Pensions Committee. Implementation of the strategy is delegated to the Chief Finance Officer. Both Committee and Chief Finance Officer receive advice from investment professionals (i.e. the Joint Investment Strategy Panel - JISP). More Information about the Fund's investment management arrangements is given on page 44.

Governance and risk management is the responsibility of the Pensions Committee to whom Fund business has been delegated by Falkirk Council. The Committee is supported by the Pension Board to ensure that decisions are made in line with the rules of the Scheme and in accordance with good practice. More information on Fund Governance can be found on page 18. Information on Risk Management can be found on page 69.

Funding strategy is set by the Pensions Committee with advice and guidance from Hymans Robertson, the Fund Actuary.

Accounting and financial control is undertaken in house by the Pensions Team using information from the various managers, Council internal financial system and the Fund Custodian – Northern Trust.

Communications are delivered via:

- the Pension Fund website
- Annual member newsletter / benefit statement
- Pensioner payslip messaging

Covid-19

The Covid-19 pandemic which erupted in March 2020 continues to impact the running of the Fund with lockdowns coming and going.

The unsettled nature and restrictions imposed by the Covid-19 pandemic have seen the Pensions team adapt to a more flexible working style that blends working from home with working in the office. This hybrid style of working has increased the resilience of the team and has meant a good level of service to stakeholders was maintained with no interruption to the payment of pensions, retirement lump sums and death grants.

The Covid experience has also seen Pensions Committee/Board meetings moving to an online format. A normal diet of meetings was held online and as Covid restrictions allow a move to more in-person meetings will take place over 2022/23.

Further comment on the risks and responses triggered by Covid-19 is contained in the Risk section of the Management Commentary and in the Annual Governance Statement.

Governance All of the joint Pension Committee and Board meetings were quorate and discussed a full diet of business, including Fund Investments, Funding Strategy, the Annual Report and Accounts and Annual Audit Reports.

Full details of the Fund's Governance arrangements can be found on page 18 and in the Governance Compliance Statement.

Risk

An updated version of the Risk Register was approved by the Pensions Committee at its meeting on 17 March 2022. It documented the highest risks to the Fund as being climate change; succession planning; lack of knowledge from those responsible for governance; compliance failure; and cyber security. Several risks had been downgraded including Covid-19, on account of the mitigations, and succession planning in view of the appointment of a new Pensions Manager and additional staff resourcing.

A significant part of the risk register is devoted to investment risk given that it is critical to the Fund's ability to pay benefits and maintain stable employer rates. A myriad of risk elements go to make up investment risk, including market risk, liquidity risk, currency risk, economic risk and political risk. These are all described in more detail in the Fund's Statement of Investment Principles. Clearly, the situation in Ukraine and the challenging economic environment pose an increased level of investment risk for the Fund, however, we are confident that our governance arrangements linking the Pensions Committee, the Chief Finance Officer, and the Joint investment Strategy Panel, along with our strategy of diversification position the Fund sensibly in the face of the headwinds.

A new risk was added to the register in March 2022 to cover the potential for merger work to be a distraction from "business as usual". All parties are clear that merger work must not interfere with normal service standards.

Further details of key risks and mitigations can be found in the Risk Management section.

Investment Arrangements

A review of investment strategy in 2021 concluded that the Fund's asset allocation remained appropriate with only some minor changes being required.

In the early part of the financial year, the Fund increased its allocation to the Pictet Global Environmental Opportunities Fund and to a passive Index-Linked Gilts mandate managed by Lothian Pension Fund Investments Ltd. An allocation to a US TIPS mandate, also managed by Lothian, was funded for the first time. The build out of the Gilts and TIPS portfolios was made to help reduce the underweight position to fixed income securities and to take advantage of the lower pricing occasioned by rising yields.

Allocations to new and existing Real Asset managers continued to be made during the year.

A significant event was the appointment of Hermes EOS as Engagement provider to the Fund. As a global advocate for responsible investment, we look forward to working with the Hermes team to ensure that the Fund's responsible investment principles in areas such as climate change and human rights are effectively argued.

For more information, see the Investment Policy and Investment Performance Sections of the Report.

McCloud

In mid-2019, the Court of Appeal decided in the "McCloud" case that certain provisions of the LGPS introduced in 2015 to protect older members of public service pension schemes amounted to age discrimination. Since the hearing, Government and associated agencies have been considering how to remedy the situation. The exact details of the solution are expected to be confirmed in October 2022.

It is likely that the method of redress will be to "level up" protections and extend the "statutory underpin" to a broader range of members. This will be applied retrospectively to 1 April 2015 and will have cost and administration implications. A report commissioned from Hymans Robertson indicated that a potential 9,750 Falkirk members could be impacted if the likely remedy was adopted requiring an additional 800 hours of resource to process.

When performing the triennial Valuation, the actuary valued liabilities on the basis that the expected solution, as articulated in SPPA's letter to Administering Authorities dated 13 May 2020, would be applied. A high-level calculation of the potential additional liabilities was undertaken by the actuary in 2020 following initial work by the Government Actuary and it is estimated to be 0.4% of the Fund (approximately £13m at the time).

Cost Cap

The Cost Cap is the mechanism through which risks around the cost of the Scheme are shared between employer and member. It acts as a safety valve so that, in the event of the Scheme becoming significantly more (or less) expensive than expected, member contributions or benefits can be changed. Initial actuarial analysis suggested that members should get improved pension benefits for membership over the period April 2019 to March 2023. However, the identified discrimination in the McCloud judgment, which determined that a protection given to older Scheme members when the Scheme reformed in 2015 was age discriminatory, meant that higher costs arising from the remedy resulted in no change to benefits or member contributions. But this is not the end of the story. On 15 December 2021, six trade unions – the Fire Brigades Union (FBU), GMB, PCS, Prison Officers Association, the Royal College of Nursing and Unite – applied to the High Court for judicial review. The FBU said the case related to younger scheme members who would not benefit from the remedy but would bear its costs. This legal action is ongoing and depending on the outcome we may see another about turn.

Relationship with other Pension Funds

The Fund has a collaborative working arrangement on investment matters with the Lothian and Fife Pension Funds with the object of delivering improved outcomes for Fund stakeholders through cost savings and quality of decision making. Savings come from investing collaboratively at scale and by being able to access private markets. In terms of the level of service received, the Fund has the reassurance that its assets are being monitored continually by the Lothian Pension Fund in house team with strategic oversight coming from the Joint Investment Strategy Panel which consists of five investment specialists, three of whom are independent of the Lothian Pension Fund.

To formalise the relationship, the Fund has entered into a shared service agreement with LPFI Limited, the regulated vehicle of Lothian Pension Fund. This provides the Fund with investment arrangement and advisory services and is the key to allowing the Fund to access investments in private markets. The Fund has an investment management agreement with LPFI authorising them to manage a liability driven investment (formerly known as gilts) mandate and TIPS (Treasury inflation protected securities). It is anticipated that, subject to due diligence, other mandates will be managed by LPFI.

The Fund has also entered into a shared service agreement with LPFE Limited, the employment vehicle of Lothian Pension Fund. Under this agreement, the Fund accesses specialist legal advice from the internal Lothian Pension Fund team on a range of investment and other pensions related matters.

Whilst the current arrangements relate mainly to investment matters, the Fund continues to explore the possibilities of collaboration in other areas, such as scheme administration and announced on 24 May 2022 the potential merger of the Lothian and Falkirk Council Pension Fund. Any merger of the two Funds would be subject to approval by both the City of Edinburgh and Falkirk Councils, and regulatory approval in both Scotland and the UK. If approved, the merger is expected to take place in 2023.

Review of Scheme Structure

The Scheme Advisory Board (SAB) launched a review into the structure of the LGPS in Scotland during 2018. In response to the consultation, Falkirk supported a three Fund structure, recognising the potential for economies of scale and fee savings from a merged structure plus the prospect of a more resilient model to service the needs of contributors, pensioners, and employers.

Consultation responses were considered by the SAB during 2019 and since then the project group has researched and extensively analysed existing reports and information relating to the options for the future. A gap analysis of information which would be needed to develop a detailed business case for the various options has also been undertaken.

However, to take this project through to completion in the specified level of detail requires more time and resources. In consequence, the SAB has decided to pause the work they are doing while they seek clarification from Scottish Ministers on the nature of the advice they want to receive from the SAB.

Notwithstanding the ongoing SAB review, Falkirk remain of the view that a merged structure is an option which should be explored. During 2020/21, management worked with the Lothian Pension Fund to better understand the challenges of a fund merger. Following a favourable outcome and after an in-depth independent review, the potential merger of the Lothian and Falkirk Council Pension Fund was announced on 24 May 2022.

Scheme Changes
No changes were made to the rules of the Scheme during 2021/22. However, following the judgments in the Walker and Goodwin cases, SPPA (Scottish Public Pensions Agency) indicated that Funds should rely on Section 61 of the Equalities Act to pay equal benefits to the survivors of same and opposite relationships, subject to the entitlement to the survivor's pension arising on or after 5 December 2005. This has since been confirmed in the Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022 which came into force on 1 June 2022.

GMP Reconciliation
The exercise to reconcile HM Revenue's Guaranteed Minimum Pension data with that of the Fund has continued during 2021/22 and should conclude during 2022/23. The Local Government Pension Scheme (Increased Pension Entitlement) (Scotland) Regulations 2019 means that any GMP related pension overpayments will not be recovered. More information on this topic can be found in Note 24.

Data Quality Standards
The Regulator requires that Funds take a pro-active approach to improving data quality. Accordingly, each year the Fund undertakes an annual data quality exercise in which Fund data is assessed against approximately 100 individual tests. The 2021/22 exercise disclosed that the Fund had a Common data score of 99.6% (99.2% in 2020/21) and a Scheme Specific data score of 94.9% (94.7% in 2020/21). The percentage of member records that did not fail any of the data tests was 97.0% for common data (93.9% in 2020/21) and 81.7% for scheme specific data (80.6% in 2020/21).

It is pleasing to see the modest improvement in data scores generally, whilst acknowledging that further work needs to be done. It is understood that some of the data gaps reflect the way data has been collected historically and does not materially impact member benefits. We will continue to seek improvements to these scores going forward.

Remuneration Report
There is no need for the Fund to produce a remuneration report, as the Fund does not directly employ any staff. All staff are employed by Falkirk Council, and their costs are charged directly to the Fund. Details of the remuneration of key management personnel can be found at Note 23a.

Outlook for 2022/23

Following the successful Covid-19 vaccination roll out in 2021, our Outlook piece in last year's Annual Report looked forward to 2021/22 being a healthier and happier year for Fund stakeholders. Sadly, war in Ukraine, cost of living pressures and the continued emergence of new Covid Variants has meant that our wish for more settled times, particularly in Eastern Europe, needs to be carried forward to 2022/23.

The investment outlook is expected to be a challenging one for the Fund. There are a series of "top down" macro factors that are expected to weigh negatively on market sentiment. These include the risk posed by continuing or new outbreaks of Covid-19; the Russian invasion of Ukraine and its impact on global energy and food supplies; Chinese regulation in its domestic markets; a tight UK labour market and an inflationary spiral leading to increased interest rates and a potential squeeze on corporate profits.

The ongoing transition by many corporates to a more carbon efficient business model will of necessity be a drag on profits. However, lobbying from institutional investors for companies to set meaningful net zero targets is likely to be an ongoing theme. The Fund will be supporting such initiatives through its membership of the Local Authority Pension Funds Forum and by engaging with corporates through its recently appointed engagement provider, Hermes EOS.

The Council initiative to move to a blended home and office working environment during 2021/22 was designed to improve staff working conditions whilst also improving operational resilience. As the Covid-19 pandemic continues to develop, it remains a threat which could potentially continue to affect operational activity throughout 2022/23. The Pensions Team will, therefore, continue to focus on meeting service delivery obligations either through home working or in a safe communal working environment, taking the ebb and flow of the ongoing uncertainty of future lockdowns and the resulting restrictions on office space in its stride.

For our members we seek to improve member experience and satisfaction, as well as making remote working easier for the Pensions Team by implementing projects that are designed to advance the Fund's digital and carbon footprint. These projects include:

- Further roll out of i-Connect (electronic transmission of member data)
- E-payslip solution for Pensioners
- Member Self Service
- Enhanced workflow management
- Data insights tool (a data interrogation and improvement tool)

These projects will be undertaken in tandem with the various regulatory matters that require rectification work and which remain in scope - GMP Reconciliation, the McCloud and Goodwin judgments.

The Fund will also embrace the challenge of inducting and training six new members of the nine member Pensions Committee. However, despite these challenges on the

horizon, the Fund remains in a healthy financial state and with a stable and experienced team in place to take forward a meaningful agenda for improvement.

Chair of the Pensions Committee	**Chief Executive of Falkirk Council**	**Chief Finance Officer of Falkirk Council**
Date: 22/09/2022	**Date:** 22/09/2022	**Date:** 22/09/2022

Fund Governance

Overview
Falkirk Council is the Administering Authority of the Falkirk Council Pension Fund (the "Fund") and is responsible for ensuring that pension fund business is conducted both lawfully and in accordance with proper standards and that contributions from members and employers are invested prudently and properly accounted for.

Falkirk Council has delegated its pensions function to a Pensions Committee. Various operational and investment activities have been further delegated to the Chief Finance Officer. Fund business is overseen by a Pension Board set up to comply with the requirements of the Public Service Pensions Act 2013.

The governance arrangements for the Fund are explained in its over-arching Governance Policy which can be found on the Fund website. Governance arrangements are reviewed from time to time to ensure they remain relevant and effective.

Annual Governance Statement
The Local Authority Accounts (Scotland) Regulations 2014 require:

- Councils to conduct an annual review into the effectiveness of the systems of internal control; and that
- An Annual Governance Statement is included in the Annual Accounts.

The Annual Governance Statement describes the governance arrangements and internal controls operated by the Fund during the accounting year.

Governance Compliance Statement
Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2018 requires the Fund to publish and maintain a Governance Compliance Statement, setting out how Fund business is conducted and how stakeholders are represented in the decision-making process. As required by Regulation 55, the Governance Compliance Statement is included in the Annual Accounts.

Pensions Committee
The Pensions Committee is responsible for the strategic management of the Fund's assets and the administration of members' benefits.

The Committee consists of nine members – six elected members from Falkirk Council and three members representing employer, employee, and pensioner interests. The three co-opted members have full voting rights and full access to papers. The Committee meets at a minimum on a quarterly basis with meetings being held mostly in public session. During 2021/22, the Committee held six meetings, all of which were joint meetings with the Pension Board.

Committee Members	
Cllr Adanna McCue (Chair of Pensions Committee)*	Elected Member (Falkirk Council)
Cllr David Aitchison	Elected Member (Falkirk Council)
Cllr Jim Blackwood	Elected Member (Falkirk Council)

Cllr William Buchanan	Elected Member (Falkirk Council)
Cllr Niall Coleman	Elected Member (Falkirk Council)
Cllr John Patrick	Elected Member (Falkirk Council)
Cllr Donald Balsillie	Employer Representative (Clackmannanshire Council)
Mr Andy Douglas	Trade Union Representative (Unison)
Mr Douglas Macnaughtan	Pensioner Representative

*New Chair- Lorna Binnie elected after May 2022 local government election

Committee Changes
During the year, Councillor David Aitchison replaced Councillor Pat Reid who stood down as a Councillor. The majority of Falkirk Council elected members are not continuing as Councillors beyond the May 2022 local authority elections. A new Committee will be established in the summer of 2022.

The Committee's main responsibilities are:

- to agree Fund governance arrangements
- to oversee Fund administration
- to establish and review Fund investment policy
- to agree the Fund's strategic asset allocation
- to monitor the implementation of Fund investment strategy
- to take proper advice in relation to investment matters
- to formulate and monitor a funding policy for the Fund
- to approve the Pension Fund Budget and monitor performance against outturn
- to approve the Annual Report and Accounts
- to approve the Fund's audit programme
- to approve the Fund's training arrangements

The Committee is supported at its meetings by officers and professional advisers. External Auditor is invariably in attendance at Committee meetings. Attendance is recorded in the meeting Minutes. During 2021/22, all meetings have been conducted virtually and streamed on-line in view of the restrictions resulting from the Covid-19 pandemic.

Details of the Committee members who are also members of the Scheme are given in Note 23.

Pension Board
In accordance with the Public Service Pensions Act 2013, a local Pension Board has been established since 1 April 2015 to assist the Scheme Manager (i.e. Falkirk Council) in securing compliance with the scheme rules and with the Pension Regulator's Codes of Practice.

The Pension Board comprises eight members - four Trade Union and four Employer Representatives. This meets the requirements of both the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Scotland)(Governance) Regulations 2015. The Board generally meets in conjunction with the Pensions Committee but can choose to meet on its own.

The Trade Union members are drawn from the three main Unions representing Scheme members, namely Unison, Unite and GMB. The four employer representatives are drawn from the largest Fund employers not already represented on the Pensions Committee. Board members are appointed for a four-year term but may be reappointed to serve a further term in accordance with agreed timescales.

The Board Chair normally rotates between the Employer and Trade Union representatives on an annual basis. Due to the uncertainties caused by the Covid-19 pandemic during the summer of 2020 and with a view to maintaining stable governance arrangements, all parties agreed that the Board Chair should not rotate during 2020/21. Normal rotation recommenced in June 2021 with the Chair passing to a Trade Union representative.

The Board Members at 31 March 2022 were as follows:

Board Members	
Mr Tony Caleary (Chair)	Union Representative (Unison)
Mr Sandy Harrower	Union Representative (Unite)
Mr Raymond Smith	Union Representative (GMB)
Mr David Wilson	Union Representative (Unison)
Mr Simon Hunt	Employer Representative (Scottish Autism)
Mr David Morgan	Employer Representative (SEPA)
Mr Ed Morrison	Employer Representative (SCRA)
Mr George Murphy	Employer Representative (Stirling Council)

Board Changes

Mr David Morgan was appointed to the Board in December 2021 following the retirement of Ms Jennifer Welsh.

Details of Board members who are also members of the Scheme are given in Note 23.

Frequency of Meetings and Attendance

Good governance of the Fund relies on formal oversight meetings being regularly convened and attended by Committee and Board members. Members are, therefore, expected to attend the majority of all scheduled meetings.

During 2021/22, six meetings were scheduled. These consisted of the standard quarterly meetings plus two additional meetings to consider variously:

i) the Annual Report and Accounts 2020/21,
ii) the future collaborative arrangements with Lothian Pension Fund, and
iii) the Fund's approach to fossil fuel investment.

The table below gives details of the meeting dates and the individual attendance records of Committee and Board members during the year.

Meetings during 2021/22

Pensions Committee	Appointment Date	17 Jun 2021	24 Jun 2021	23 Sep 2021	22 Oct 2021	9 Dec 2021	17 Mar 2022
A. McCue	04/05/2017	✓	✓	✓	✓	✓	✓
D. Balsillie	04/05/2017	✓	✓	x	x	✓	✓
J. Blackwood	03/05/2012	✓	✓	✓	✓	✓	✓
W. Buchanan	04/05/2017	✓	✓	✓	✓	x	x
N. Coleman	15/02/2018	✓	✓	✓	✓	✓	x
A.Douglas	05/09/2013	x	✓	✓	x	✓	✓
J. Patrick	08/08/2000	✓	✓	✓	✓	✓	x
P. Reid	04/05/2017	✓	✓	n/a	n/a	n/a	n/a
D. Mcnaughtan	02/09/2020	x	x	✓	x	x	✓
D. Aitchison	03/08/2021	n/a	n/a	✓	✓	✓	✓
Pension Board							
S.Hunt	14/09/2016	✓	x	✓	✓	✓	x
G. Murphy	05/03/2020		x	✓	✓	x	✓
E. Morrison	26/06/2015	✓	x	x	x	x	✓
J. Welsh	26/06/2015	x	✓	✓	✓	n/a	n/a
T. Caleary	17/02/2020	✓	✓	✓	x	✓	✓
D. Wilson	17/02/2020	x	x	x	x	✓	x
S. Harrower	26/06/2015	✓	✓	✓	x	✓	✓
R. Smith	18/02/2021	✓	✓	x	✓	✓	x
D. Morgan	01/12/2021	n/a	n/a	n/a	n/a	✓	✓

Training for those with Governance Responsibilities
The Fund's training policy recognises that those involved in the governance of the Fund should have the necessary level of skills and knowledge to allow them to carry out their duties effectively.

Training is normally provided through a variety of means, including:
- seminars and conferences offered by industry-wide bodies
- training as part of formal meetings provided by Fund officers and/or external advisers
- circulation of investment manager reports
- access to the Fund website and secure portal for up-to-date information

During 2021/22, training events were provided initially virtually and later in person covering a wide range of topics from administration to investment and governance. Various members of the Committee and Board attended the following online or in person events:
- General Committee and Board training hosted by the Scottish Pensions Officers Group
- Investments and Pensions Summit hosted by LGC
- Investment Strategy Training

- Fundamentals training for members of Pensions Committee and Board provided by Local Government Association
- Governance Conference hosted by Local Government Association

Senior officers continued to attend online events covering Investments, TCFD reporting, risk and Pensions Insight.

Training arrangements for 2022/23 are expected to be provided both on-line and in person.

Conflict of interests

A conflict of interest occurs where a financial or other interest exists which is likely to prejudice the way a person exercises their functions as a member of the Committee or Board. This does not include a financial or other interest arising merely by virtue of being a member of the scheme.

The standards expected of Committee and Board members are set out in the Fund's Conflict of Interest Policy.

There is a standing agenda item at each Pensions Committee and Board meeting for members to declare such interests. Any declarations are recorded in the minutes.

Freedom of Information, Accountability and Transparency

Pensions Committee agendas, reports and minutes are published on the Falkirk Council website.

Pensions Committee meetings are open to members of the public (with the exception of commercially sensitive items which are taken as private business).

During 2021/22, the Fund responded to 30 Freedom of Information requests (32 in 20/21), the majority of which related to the composition of the Fund's assets.

Documentation

The minutes of Pensions Committee and Board meetings can be found on the Falkirk Council website www.falkirk.gov.uk by accessing the Meetings Schedule for the Pensions Committee.

Other documents pertaining to Fund Governance can be viewed or downloaded from the Pension Fund website www.falkirkpensionfund.org including:

- Annual Report and Accounts
- Funding Strategy Statement
- Governance Framework Document
- Statement of Investment Principles
- Statement of Responsible Investment Principles
- Valuation Reports

Funding Strategy Update

Overview

The Funding Strategy Statement is the formal record of how the Fund will meet its obligations to pay benefits. It contains details of the Fund's funding objectives, including its approach to balancing the conflicting aims of prudence and contribution rate affordability. The Funding Strategy Statement is intended to give stakeholders, and employers in particular, reassurance that individual funding positions are being determined in a fair and consistent manner. It also demonstrates to regulators that a prudent approach is being taken to funding liabilities and that rates are being set with regard to inter-generational fairness.

Following consultation with Trade Unions and Fund Employers, a revised version of the Funding Strategy Statement was agreed by the Pensions Committee on 18 March 2021. The funding objectives are largely unchanged from the previous version of the document and specify that the Fund should:

- have a high likelihood of holding enough assets to meet future benefit payments over the long-term
- target a funding level of 100% (i.e. assets = liabilities) over 20 year period
- allow a maximum period of 20 years for employers to repair any funding deficit
- provide stability and affordability of employer contributions
- hold sufficient cash to meet immediate benefit commitments

The main change to the strategy document was to acknowledge that there were several unresolved issues nationally which could affect Fund solvency and impact on contribution rates in the future. These can be summarised as follows:

- the McCloud age discrimination judgment which requires certain scheme protections to be extended to younger members
- the Goodwin sex discrimination case which requires certain survivor benefits to be levelled up
- the Cost Cap where member benefits may require to be increased if the cost of the scheme (excluding investment returns) proves to be markedly less than expected
- Future valuations may move from a three yearly to four yearly cycle making rates less aligned with funding positions.

The Funding Strategy Statement is the key reference point used by the actuary when undertaking the three yearly Fund valuations. For the 2020 valuation, as set out in the strategy statement, the actuary continued to take a risk-based approach to setting contribution rates by having regard to:

- the money each employer needed to hold in order to pay benefits ("funding target")
- the time period over which full funding is to be targeted for employers ("time horizon")
- the probability of the funding target being met by the end of the time horizon taking account of the nature of the organisation.

In broad terms, the funding strategy requires that there should be at least a 70% chance of an employer being fully funded or better at the end of their time horizon. A review of the Fund's investment strategy was conducted in June 2021 to ensure that the target return and asset mix is consistent with the Fund having the required chance of achieving funding success in the long-term. Following the completion of this review a slight alteration to the allocation of LDI (liability driven investment) and Non-Gilt Debt was made, and the Statement of Investment Principles was updated accordingly.

The Funding Strategy also permits contribution increases (and decreases) to be implemented on a graduated basis for employers that are deemed very low risk (i.e. Government backed or tax raising powers). This facility known as the “contribution rate stability mechanism” helps minimise the budgeting issues that can arise for employers from sharp changes in contribution rate levels.

The Funding Strategy is instrumental in setting employer contribution rates and in influencing investment strategy.

The Funding Strategy is set with the intention of delivering a successful outcome for the Fund over the longer term and is designed to be sufficiently robust to withstand short term market swings.

Actuarial Update

Overview
The solvency of the Fund is assessed on a regular basis. A formal funding valuation is carried out every three years by an independent actuary to determine how much money needs to be paid by employers to allow benefits to be paid now and in the future. The Fund also asks the actuary to provide an estimate of the funding position at each year end based on the valuation assumptions.

The most recent formal valuation took place on 31 March 2020 and has set the contribution rates to be paid by employers for the three years from 1 April 2021 to 31 March 2024. The valuation work was undertaken during 2020/21 by the Fund Actuary, Hymans Robertson, and reported to the Pensions Committee in March 2021. The findings are summarised in the actuarial statement for 2021/22 which is set out in Appendix 1.

A separate estimate of the funding position is undertaken each year by the Fund actuary. This is based on prescribed assumptions which comply with IAS26 accounting requirements and is not relevant to the Fund's long-term funding strategy. Details of the IAS 26 valuation at 31 March 2022 can be found in Note 19.

Funding Position
The results of the 2020 valuation disclosed a funding level of 94%, meaning that the Fund had 94% of the monies needed to pay benefits that members had accumulated at 31 March 2020. This represented a small improvement on the 2017 funding position. As the table below shows, a more recent funding estimate as at 31 March 2022 indicates that the position has improved from 2020. Whilst an estimated funding level of 113% is very positive, it should be stressed that the funding level is a very volatile metric and that what is important to the Fund is having a strategy which gives it a strong probability of being able to meet its long-term funding commitments. The Fund's ongoing positive cashflow position of c.£15.5m per annum (see page 31) is one indicator of this capability.

	2017 Valuation	**2020 Valuation**	**2022 Estimate**
Assets	£2,219m	**£2,329m**	**£3,189m**
Liabilities	£2,403m	**£2,481m**	**£2,821m**
Funding Surplus / (Deficit)	(£184m)	**(£152m)**	**£368m**
Funding Level	92%	**94%**	**113%**

For the avoidance of doubt, the estimated 2022 Fund liability of £2.821m does not appear in the financial statements. This is because the number includes an estimate of future payments to be made from the Fund, whereas the financial statements only take account of the Fund's obligations to pay pensions as at 31 March 2022.

Funding Assumptions
In estimating the March 2022 funding position, the actuary has made judgements about both assets and liabilities.

For assets, the actuary has taken account of cash flows and investment returns from the last valuation date. For liabilities (i.e. the money the Fund needs to hold so as to meet its benefit commitments) the sum assessed by the actuary is somewhat less than the total of all future benefit payments owing to the fact that the actuary assumes – prudently - that the Fund will achieve a given return on its investments in the future.

Further relevant assumptions made are:

	2020 Valuation	**2022 Estimate**
Assumed future investment return (based on 75% likelihood of success)	3.2%	**3.9%**
Salary increase assumption	2.3%	**3.5%**
Pension increase assumption	1.7%	**2.7%**

The strong investment performance since 31 March 2020 has led to best estimates of investment returns being revised upwards.

The salary increase assumption is significant as wage inflation impacts the final salary benefits of members with pre 2015 rights.

The pension increase assumption is highly relevant as benefits in payment are increased in line with inflation as determined by rises in the Consumer Price Index.

Mortality assumptions are unchanged from the 2020 valuation. Mortality rates are reassessed at each of the three yearly valuations and draw on the analysis of Fund longevity experience built up through participation in Club Vita.

Changes since the 2020 valuation

The estimated funding results are dependent on a number of factors including the membership details, current financial conditions, the outlook for future financial conditions and demographic trends such as longevity. Changes in each of these factors can have a material impact on the results. The 2020 valuation coincided with a period of extreme volatility and uncertainty in financial markets occasioned by the Covid-19 pandemic. This turbulence has continued with the advent of the invasion of Ukraine and the inflationary environment gaining traction in global economies.

The improvement in the past service funding, which has been driven by strong investment performance since 2020, is reflected in the estimated funding level of 113% at 31 March 2022. However, most market commentators agree that there is still considerable uncertainty around the future economic impact of the war in Ukraine (both in the short- and long-term), such as the rise in inflation and, as such, readers should view the funding level – a volatile metric at the best of times - with caution and in the context of the wider economic environment.

The change in funding position from a small deficit at 31 March 2020 to an estimated surplus at 31 March 2022 is mainly derived from the improvement in asset values. The actuary has indicated that the likelihood of the Fund having sufficient assets to meet benefit payments has improved from 70% at the 2020 valuation to 81% at March 2022, and the level of investment return required to achieve the funding objective has fallen by a further 0.1% since March 2021 to 3.2% p.a. The impact of the improved asset position has, however, been slightly tempered by an increase in the cost of benefit provision which is mainly due to higher long-term inflation expectations.

Details of the actuarial assumptions and method adopted for the 2020 Valuation are contained in the link to Valuation Report (see Appendix 3).

Financial Performance

Overview
This section reports primarily on the Fund's income, expenditure, and cash flows during 2021/22.

Annual Budget
The Pensions Team prepare a Fund Budget for review and approval by the Pensions Committee. The budget focuses on controllable expenditures and so excludes benefit payments, contributions received and transfers in and out of the Fund. The investment costs do not take account of fees deducted directly from capital. As a result, the actual investment management costs in the table below do not reconcile to Note 11.

A summary of the actual and budgeted expenditure for 2021/22, together with the budget for 2022/23, is set out below. More information about Fund costs is given in Note 11 and 11a.

	Budget 21/22	Actuals 21/22	Variance 21/22	Budget 22/23
Benefits administration	£	£	£	£
Employee expenses	594,960	538,430	(56,530)	**654,360**
IT Costs	307,010	220,152	(86,858)	**429,630**
Projects	165,000	85,740	(79,260)	**90,000**
Other	132,790	139,505	6,715	**150,720**
Benefits administration Total	**1,199,760**	**983,827**	**(215,933)**	**1,324,710**
Oversight and governance costs				
Employee expenses	147,630	113,694	(33,936)	**152,990**
Investment advice (inc. external)	301,000	227,738	(73,262)	**280,000**
Infrastructure deals & property advice	386,000	343,691	(42,309)	**331,000**
Actuarial fees	120,000	76,620	(43,380)	**120,000**
Engagement services	80,000	25,000	(55,000)	**80,000**
Tax advice and legal fees	70,000	40,823	(29,177)	**70,000**
Performance measurement	85,000	82,400	(2,600)	**85,000**
Other	119,080	103,934	(15,146)	**124,870**
Oversight & governance Total	**1,308,710**	**1,013,900**	**(294,810)**	**1,243,860**
Investment management costs				
Managers fees	5,157,500	4,992,913	(164,587)	**5,515,500**
Custodian costs	105,000	81,137	(23,863)	**115,000**
Aborted deal costs	75,000	-	(75,000)	**75,000**
Other	5,000	10,134	5,134	**5,000**
Investment management Total	**5,342,500**	**5,084,184**	**(258,316)**	**5,710,500**
Contingency (Project Forth)	**125,000**	**99,459**	**(25,541)**	**tbc**
Pension Fund Total	**7,975,970**	**7,181,370**	**(794,600)**	**8,279,070**

The main variances between the budgeted and actual amounts for 2021/22 related to:

Cost category	Under/Over spend	Comments
Benefits administration	Underspend	Savings from staff costs resulting from the time lag between vacancies arising and being filled and some Altair improvement projects moving to 2022-23
Oversight and governance	Underspend	Savings from reduction in requirement for external investment advice; less than budgeted recharges from Lothian; and delayed on-boarding of Hermes EOS
Investment management	Underspend	Savings in manager fees and no expenditure for aborted deal costs. Manager fees are set as % of the asset value and due to market movements actuals will always differ from estimates.

The budget for 2022/23 represents an increase of £303k on the 2021/22 budget. The main changes are:

Cost category	Increase or Decrease	Comments
Benefits administration	Increase	The budget accounts for Altair improvements such as adoption of Insights product to drive data improvement, Member Self Service and Workflow.
Oversight and governance	Decrease	Changes to the recharge mechanism from Lothian Pension Fund
Investment management	Increase	Increase in the value of assets under management
Contingency	Budget to be agreed	This is a contingency for work that may be required in connection with a Fund merger subject to Council approval of merger

Contributions made to the Fund in 2021/22
During 2021/22, employees and employers paid the following contributions:

Employer Name	Employees in £'000	Employers in £'000
Central Scotland Joint Valuation Board	100	346
Clackmannanshire Council	2,587	9,884
Falkirk Council	7,250	27,985
Forth Valley College	558	2,004
Police Scotland	419	1,559
Scottish Fire & Rescue	47	162
Scottish Childrens' Reporter Administration	1,035	3,217
SEPA	3,177	9,286

Stirling Council	4,676	17,349
Total Scheduled Bodies	**19,849**	**71,792**
Active Stirling Trust	170	514
Amey	5	10
Ballikinrain School	37	208
Colleges Scotland	27	103
Cowane's Hospital	5	25
Cromwell European Mgmt Services Ltd	3	-
Dollar Academy Trust	136	445
Falkirk Community Trust	483	1,957
Forth & Oban Ltd (Falkirk schools)	4	8
Forth & Oban Ltd (Stirling schools)	22	41
Haven Products Limited	3	14
Scottish Autism	463	2,305
Smith Art Gallery	8	27
Snowdon School Ltd	17	50
Strathcarron Hospice	384	1,371
thinkWhere	9	27
Water Industry Commission	132	463
Total Admitted Bodies	**1,908**	**7,568**
Fund total (see Note 7)	**21,757**	**79,360**

The total pensionable pay of members on which contributions were levied was £318m (£334m for 2020/21). This means that average member contributions were 6.8 % of pay (6.1% in 2020/21) and average employer contributions (exc. deficit repayment) were 24.6% (22.2% for 2020/21). The reasons behind the rise in employee and employer contributions is covered in the cashflow section below.

During the year, there were 4 instances of employers failing to remit contributions by the due date (6 in 2020/21). None of these circumstances were deemed material and no interest for late payment was charged due to the nature of the sums involved. During 2021/22 one smaller fund employer asked for a 3-month contribution deferral which was granted with the amount due in January 2022. Subsequently the employer went into administration in December 2021. The Fund registered its interest with the liquidator. The amount owed from the deferred contribution was very small (0.03% of total employer contributions received within the year).

Cashflow
This represents the net inflows and outflows to the Fund in respect of dealings with members. It does not take account of income derived from the Fund's assets, such as dividends, recoverable taxes, etc.

Cash Flow Table (Net withdrawals / additions from dealing with members)

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Inflows Contributions and transfers from other pension funds	83,880	92,754	98,405	98,558	105,815

Outflows Benefits and payments to and on account of leavers	74,918	78,461	84,381	92,853	90,357
Net cash flow	**8,962**	**14,293**	**14,024**	**5,705**	**15,458**

The analysis of flows in and out of the Fund shows that it remains in positive cash flow territory. The dip in net cash flow in 2020/21 was the result of VisitScotland interests in the Falkirk Fund being transferred to Lothian Pension Fund as part of an LGPS Scotland wide exercise. Net cash flow has returned to previous levels in 2021/22.

Contributions into the Fund increased due to annual salary increases and higher employer rates being levied than in 2021/22 as part of the rates certified at the 2020 valuation. The trend increase in benefit payments reflected the higher aggregate number of pensioners receiving benefits. Despite the positive net cash flow position, the longer-term trend will inevitably be towards a cash neutral or negative position as the ratio of deferred and pensioner members to active members increases.

Pension Payments and the National Fraud Initiative

The primary outlay of the Fund is the regular payments made to pensioner members. To help ensure that pensions are only paid to members with an ongoing entitlement, the Fund participates in the National Fraud Initiative (NFI). This is a data matching exercise conducted every two years by the Cabinet Office to detect fraud and irregularities in various areas of public finance.

The Fund participated in the exercise during 2020/21 with the results showing that only one of the cases flagged by NFI might be being paid invalidly. Work to recover any overpaid pension is still ongoing with this case. The exercise is expected to be undertaken again in 2022/23.

Conclusions

Fund expenditure was lower than budgeted, largely due to invoiced investment management fees being lower than anticipated. Despite the challenges of the pandemic, all employers paid their certified pension contributions by 31 March 2022 apart from one in liquidation.

Scheme Administration

Overview
This Section reports on the administrative activities undertaken by the Pensions Team during 2021/22. It includes:

- Key Performance Indicators 2021/22
- How the Administration function is organised
- Value for Money Statement
- Membership Information
- Administration Activity and Performance
- Communications
- Administration Outlook for 2022/23

Key Performance Indicators 2021/22
The aim is to provide an efficient and cost-effective administration service that meets stakeholders' needs. Performance is measured through a series of indicators:

Key Performance indicators 2021/22	Target	Actuals
Audit of Annual Report and Accounts 2020/21	Unqualified	Unqualified
Benefit Statements issued by 31 August 2021	100%	64%*
Contributions received within statutory deadline	100%	99.4%
Retirement lump sums paid within 15 days	90%	93%
Monthly Pensioner Payroll Paid on time	100%	100%
Pensions Increase processed with April Pension	Meet Target	Met Target
P60 documents issued by end May	Meet Target	Met Target

*Due to a major cyber-attack in late 2020, one employer was late in submitting the data required to allow their benefit statements to be issued on time. These statements were subsequently issued in November 2021. The Pensions Regulator was notified but recommended no further action. Excluding the employer concerned, 95% of statements were issued by mid-September 2021.

How the Administration function is organised
Administration is undertaken by the in-house Pensions Team, which is managed by the Pensions Manager who, in turn, reports to the Chief Finance Officer.

Staffing
The team has 18.89 budgeted full-time equivalent posts (including vacancies) and is headed by the Pensions Manager. In addition to benefits administration, staff members undertake governance, accounting, and investment related activities. As of 31 March 2022, the Team was made up of:

Pension Manager (1FTE)				
Accounting Team	Maintenance Team 1	Maintenance Team 2	Projects Team	Payments Team
1.37 FTE	3.4 FTE	4.81 FTE	2 FTE	5.31 FTE

Record Maintenance
Membership data and scheme records are maintained by the internal Pensions Team using the industry standard computerised pensions administration system (Altair) which is used by all LGPS Funds in Scotland. The system is reviewed regularly by Heywood, the software vendor, and upgrades are provided regularly to ensure system compliance and improvement. Upgrades are subject to peer testing by a user group before being deployed.

All staff are required to complete online Data Protection training annually as part of the Fund’s commitment to ensuring that member data is held securely, and that confidentiality is respected. No data security incidents took place during 2021/22.

During the year, an exercise was successfully undertaken to digitise active member records thereby increasing the Pension Team’s capacity for hybrid working between home and office.

Systems
The Pension Team use the IT platforms and infrastructure provided by the ICT Section of the Council.

All staff have access to laptops, essential hardware and operating systems.

In addition to normal laptop/desktop software, the key systems used by the team are:

System	Purpose
Altair	Pension administration and pensioner payroll
Integra	Financial Information System
Bankline (RBS)	Fund Banking

The Fund has an ongoing project to enable constituent employers to make monthly electronic data submissions using a middleware application known as i-Connect. This is to improve the timeliness, completeness and quality of data. By 31 March 2022, most small and medium sized employers in the Fund were live on i-Connect, together with several larger employers. The final phase of the project involves a small number of medium sized employers and Falkirk and Stirling Council going live and this is expected to be completed during 2022/23.

Value for Money Statement
Value for Money describes whether an organisation has been efficient, effective and economically competent in delivering a particular service or function. This helps better identify areas where improvements can be made.

The Fund strives to deliver value for money by monitoring:

- costs against budget (see page 28)
- year on year total and unit costs (see table on the next page)
- performance statistics (see page 32)
- success in completing key activities (see page 40)
- investment cost through benchmarking (see page 35)

The Fund's total unit costs per member in 2021/22, split across the cost categories of investment management, administration and oversight and governance (see Note 11) were as follows:

	2017/18	2018/19	2019/20	2020/21	2021/22
Investment management expenses					
Total cost in (£000)	10,053	11,290	14,546*	17,148*	16,914*
Total membership numbers	33,560	34,635	35,396	35,929	36,978
Sub cost per member £	**299.55**	**325.97**	**410.95**	**477.27**	**457.41**
Administration costs					
Total cost in (£000)	749	776	919	960	984
Total membership numbers	33,560	34,635	35,396	35,929	36,978
Sub cost per member £	**22.32**	**22.41**	**25.96**	**26.72**	**26.61**
Oversight and governance costs					
Total cost in (£000)	503	641	939	1,035	1,014
Total membership numbers	33,560	34,635	35,396	35,929	36,978
Sub cost per member £	**14.99**	**18.51**	**26.53**	**28.81**	**27.42**
Total cost per member £	**336.86**	**366.89**	**463.44**	**532.80**	**511.44**

*from 2019/20 investment management costs include costing information available from CTI templates and individual property funds that were not previously available

Comment on Costs

Administration costs marginally increased from 2020/21 but were within budget. With the increase in membership numbers, the cost per member reduced slightly. Since 2019-20, the fund has increased its budget to deal with several projects such as GMP reconciliation, record scanning, i-Connect roll out and solutions to McCloud. Some of these projects have been completed, but others are being brought forward to 2022/23.

Oversight and governance costs reduced slightly from 2020/21 remaining within budget. The gradual increase in costs from 2019/20 has been the result of the collaboration with Lothian Pension Fund being expanded to include deal sourcing and monitoring for Infrastructure, Private Debt and Property mandates. This reflects a switch from more expensive fund of fund structures to sourcing investments in conjunction with Lothian. This switch results in lower investment fees but higher oversight and governance fees due to Lothian for their research and due diligence work.

Investment management costs have fallen by £0.2m from the 2020/21 level. The £0.9m reduction in performance management fees, due to some of these fees being already realised at the end of investment period, was offset by £0.7m increase in management fees paid on asset value. For the purpose of the Accounts performance fees are disclosed on an incremental accrual basis and are linked to the performance of the investments. and can move up and down over the full investment period.

LGPS Code of Transparency

The LGPS Code of Transparency is a project that has been evolving for the past few years with the aim to provide Funds with comprehensive data on investment costs including fees that have been both invoiced and deducted from capital. It builds on work undertaken by the Investment Association, the Pensions and Lifetime Savings Association and the England and Wales LGPS Scheme Advisory Board. Under the

Code, managers are providing cost information in a standardised format using templates established under the Cost Transparency Initiative (CTI)) and uploading these to a secure portal.

Participation in the Code is voluntary; however, the expectation is that managers will participate. Participation is expected to be a condition of any new manager appointments. For 2021/22, the Fund has continued to use CTI templates to collect cost data about its pooled investments (e.g. Baillie Gifford's Diversified Growth Fund and Legal and General's Passive Equity Funds).

In line with last year, the Fund has, where possible, disclosed the investment management costs reported by managers through the Cost Transparency Initiative (CTI). These costs are different to the manager fees for which the Fund is invoiced and include costs charged to capital by managers.

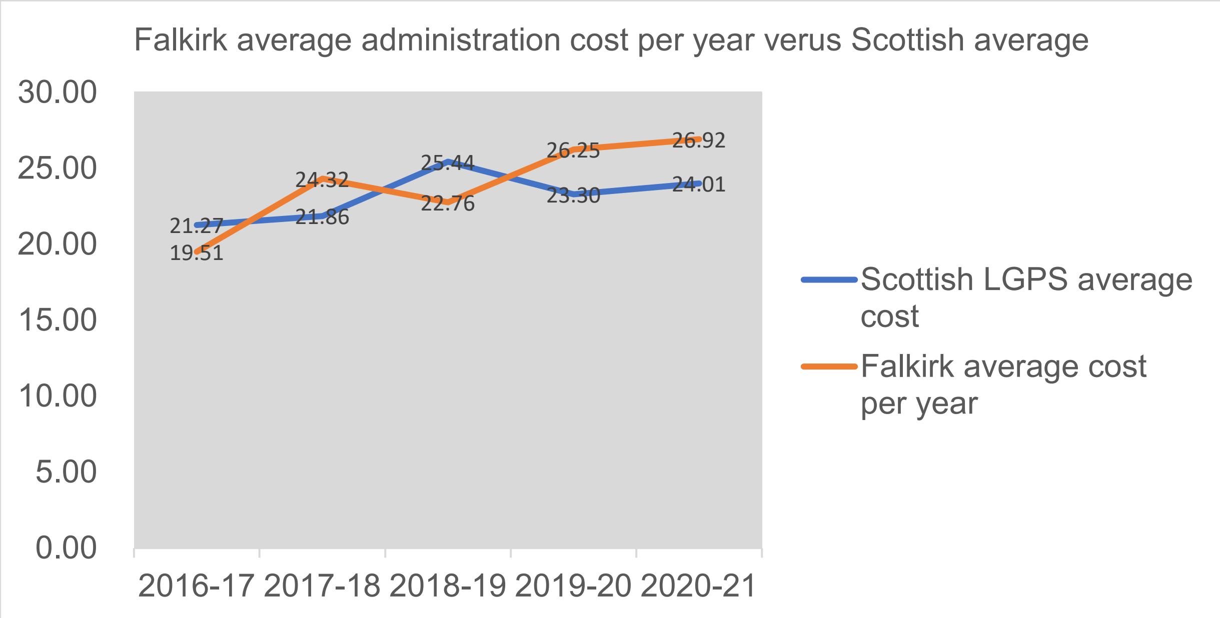
Investment Cost Benchmarking
In 2021/22, the Fund again participated in a cost benchmarking exercise undertaken by specialist firm CEM. CEM is an independent global benchmarking company with a database of 525 global pension funds, representing $14.5 trillion in assets. Participation allows Fund investment costs to be compared with a range of LGPS and non-LGPS peer comparators. The work is done one year in arrears, so the information reported below relates to the Fund's investment cost data for 2020/21. The Fund returns were compared with 17 global peer funds ranging from £2.1bn to £4.5bn.

The results showed the Fund's costs as 68.5 basis points of invested assets, which was above the average benchmark cost of 66.4 basis points for similarly sized funds.

However, costs had fallen from 73.6bps in 2014/15 to 68.5 bps in 2020/21 at a time of rising asset valuations. The 7-year net total return of 8.1% was below the CEM LGPS median of 8.8%.

Analysis of investment costs remain a complex subject matter where specialist expertise is essential to understand data and reach informed conclusions.

Administration Cost Benchmarking
The chart on the next page shows the Fund's average administration costs per year in comparison with the overall Scottish LGPS average. The Fund's costs of £26.92 during 2020/21 are above the Scottish average, but not untypical to similar size funds.



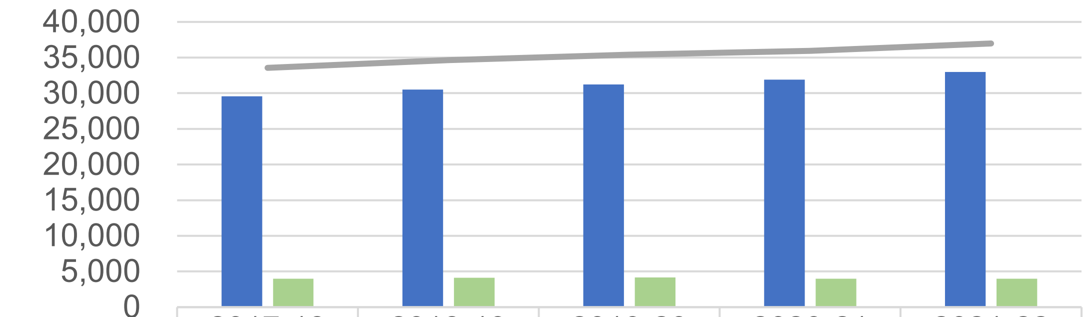
Source: CIPFA Scottish Directors of Finance benchmarking

The recent increase in costs is due to additional projects such as record scanning, the GMP reconciliation and staff recruitment to improve resilience. For the CIPFA exercise, costs are calculated on a different basis than costs shown in the Accounts on page 34.

The CIPFA Scottish Directors of Finance Performance Indicators Report 2020/21 (n.b. most recent available) reveals that similarly sized Scottish LGPS Funds have an administration cost on average of around £26.68 per member.

Membership Information
Fund membership numbers change as individuals join or leave the Scheme as part of normal staffing turnover. From time to time, more significant membership movements can occur from factors such as recruitment freezes, workforce reshaping, staff transfers, and Government initiatives (e.g. auto enrolment).

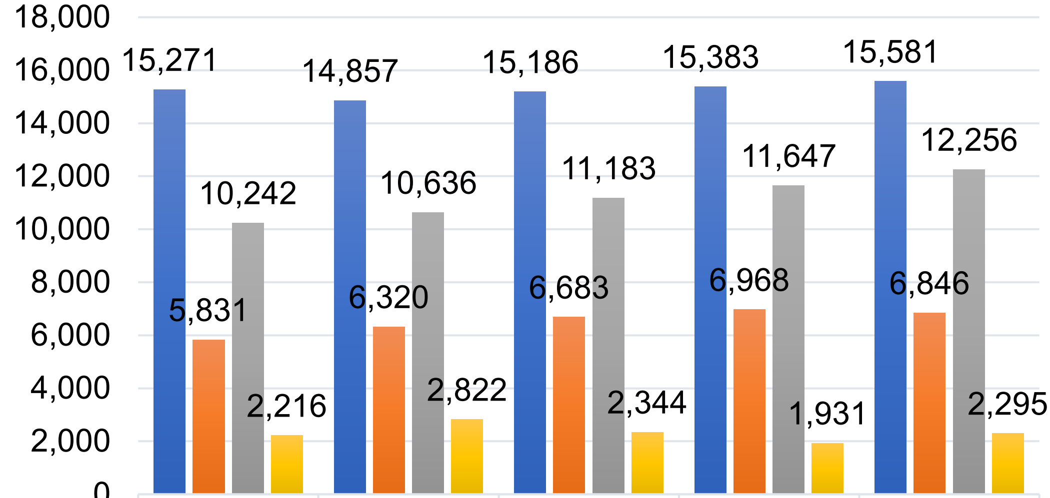
The first chart in this Section, on the next page shows how total Fund membership (active, deferred, pensioner and undecided members) has changed over the past 5 years split between Scheduled and Admission Bodies. It shows that total membership over the past 4 years has increased at an average of around 2.5% p.a. It also indicates that 89% of scheme members in the Fund work for Scheduled Bodies.



	2017-18	2018-19	2019-20	2020-21	2021-22
Scheduled	29,553	30,494	31,225	31,921	32,996
Admission	4,007	4,141	4,171	4,008	3,982
Total	33,560	34,635	35,396	35,929	36,978

Source: Falkirk Council Pension Fund

The next chart breaks down total membership into its constituent parts, namely active, deferred, pensioners and undecided members.



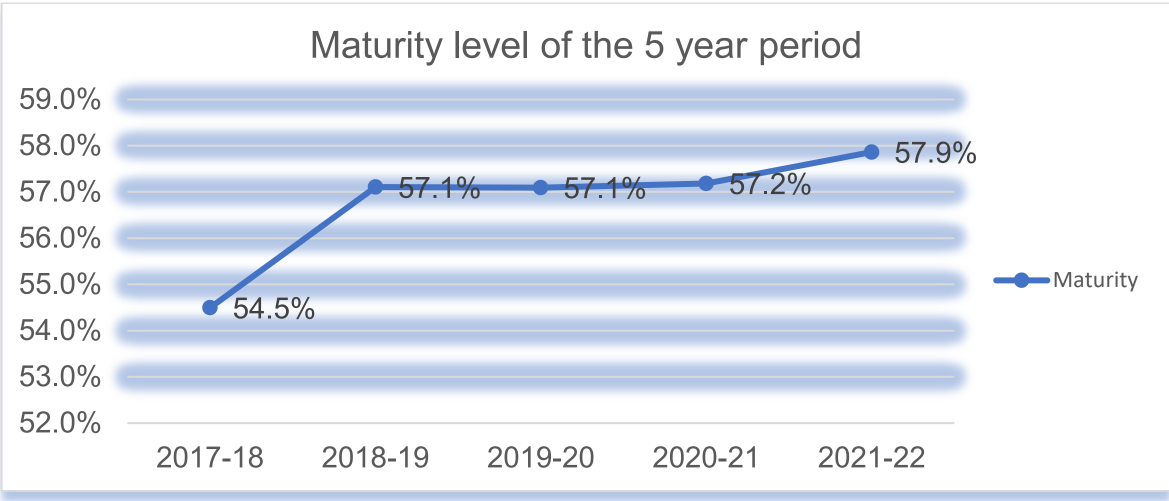
	2017-18	2018-19	2019-20	2020-21	2021-22
Active	15,271	14,857	15,186	15,383	15,581
Deferred	5,831	6,320	6,683	6,968	6,846
Pensioner	10,242	10,636	11,183	11,647	12,256
Undecided	2,216	2,822	2,344	1,931	2,295

Source: Falkirk Council Pension Fund

The chart on the previous page shows that as at 31 March 2022 active, deferred and pensioner members have increased whilst undecided members have slightly increased due to resources being directed at two major projects: record scanning and office move.

The number of pensioner and deferred members have been increasing steadily over the past 5 years in line with the maturing life cycle of the Fund. The increase in active membership, whilst modest during 2020/21, is helpful in allowing the Fund to maintain its positive cashflow position.

A metric helpful in determining the degree of Fund maturity is the ratio of non-active members to total members. Should the metric have shown that the Fund was maturing rapidly, this would be a signal to tilt investments to a more focused income generation strategy. The chart below, shows a small increase in the maturity level from the previous year. However, no specific investment action is required at this stage. The maturity of the Fund is also considered by the actuary when conducting triennial valuations.



Source: Falkirk Council Pension Fund

Analysis of Scheduled and Admission Bodies
The number of employers with a continuing interest in the Fund as at 31 March 2022 is as follows:

Type of Employer	Open	Closed to new members	Total
Scheduled Bodies	9	0	**9**
Admitted Bodies	10	6	**16**
Total	**19**	**6**	**25**

A full list of Fund employers can be found at Appendix 2.

Analysis of New Pensioners during 2021/22

Retirement type	
Normal/late from active status	300
Normal/late from deferred status	318
Voluntary - age 55 to age 60	68
Efficiency	34
Redundancy	15
Ill health	38
Total	**773**

Of the retirements above, 26 were flexible retirements, meaning that those individuals have retired and carried on working for their employer but in a materially reduced capacity.

Administration Activity and Performance

The overriding objective of the administration team is to operate the provisions of the Local Government Pension Scheme in an efficient and cost-effective manner.

This encompasses a broad range of activities, including:

- new member enrolment
- transfers in
- contributions
- scheme membership and pensionable earnings
- added contribution and AVC requests
- estimates
- early leaver refunds, transfers out and deferred benefits
- retirement benefits
- pension payments and HM Revenue compliance
- death grants
- survivor benefits
- information, guidance and employer liaison
- communications materials
- benefit statements production
- pensioner payroll
- cessation valuations
- disputes resolution

Project work undertaken in 2021/22 included the ongoing roll out of i-Connect, data cleansing, record digitisation, migration of team to new premises and new office set up, GMP reconciliation, and work relating to a possible merger with the Lothian Pension Fund.

Provisions around the concurrent membership, aggregation of member rights, assumed pensionable pay, certificates of protection, and Lifetime and Annual Allowance continue to be the most challenging and resource intensive areas.

Performance Information

Performance Indicator – Volume and Completion Rate

	New member enrolment	Estimate requests	Retirements from active status	Other transactions
Cases in scope				
2018/19	787	649	428	13,406
2019/20	1,378	618	364	14,007
2020/21	1,236	607	357	11,640
2021/22	1,898	1036	451	13,566
Cases completed by y/e				
2018/19	720	598	382	11,898
2019/20	1,361	578	312	12,788
2020/21	1,187	528	316	10,456
2021/22	1,870	801	403	12,104
Cases due at y/e				
2018/19	67	51	46	1,508
2019/20	17	40	52	1,219
2020/21	49	79	41	1,184
2021/22	28	235	48	1,462
Completion rate				
2018/19	91%	92%	89%	89%
2019/20	99%	93%	86%	91%
2020/21	96%	87%	88%	90%
2021/22	98%	77%	89%	89%

Performance Indicator – Timescales

	New member enrolment	Estimate requests	Retirements from active status	Other transactions
KPI	**21 days of being advised**	**1 month**	**15 days from all information**	**1 month**
Cases in scope				
2018/19	720	598	382	11,898
2019/20	1,361	578	312	12,788
2020/21	1,187	528	316	10,456
2021/22	1,870	801	403	12,104
Cases meeting target				
2018/19	448	326	358	8,590
2019/20	721	380	295	9,806
2020/21	870	336	302	9,157
2021/22	1,250	471	375	10,692
Completion rate				
2018/19	62%	55%	94%	72%

2019/20	52%	66%	95%	77%
2020/21	73%	64%	96%	88%
2021/22	67%	58%	93%	88%

Other transactions cover a vast array of requests from members to carry out any pieces of work such as letters, transfer requests, changes of address, nominations, etc.

The administration team is continuing to build up the range of performance statistics available with a view to improving transparency and member outcomes.

Internal Disputes Resolution Procedure
Where members have a concern that cannot be resolved through liaison with the Pensions Team, the Fund operates a two stage Internal Disputes Resolution Procedure (IDRP) which allows complaints to be considered by an independent third party and subsequently by Scottish Ministers. Dispute application forms can be obtained from the Pensions Team.

The Fund has a reciprocal arrangement with the Strathclyde Pension Fund whereby Falkirk appeals are adjudicated upon by their Chief Pensions Officer and Strathclyde's appeals are adjudicated upon by the former Pensions Manager at Falkirk. Appeals can also be heard by a person appointed by Fund employers to hear such appeals.

Members whose complaints are not satisfied through IDRP may ultimately appeal to the Pensions Ombudsman. The Money and Pensions Service, formerly the Pensions Advisory Service, may be contacted by the member for guidance at any point in the appeal process. Contact information for the Ombudsman and the Money and Pensions Service are as follows:

Money Helper which is provided by the Money and Pensions Service	0800 138 7777	Money Helper
Pensions Ombudsman	0800 917 4487	The Pensions Ombudsman

One dispute involving the Fund was concluded at Stage 2 level during 2021/22. Details are included in the table below.

Subject Matter	Stage 1 Outcome	Stage 2 Outcome
Member contended hours worked whilst on call out duty should have been pensionable	Appeal Dismissed	Member lost appeal at Stage 1 on basis that there had been no contractual obligation to work the hours. Stage 2 appeal to Scottish Ministers was upheld in member's favour

Communications
Members and employers can obtain information about the scheme by contacting the Pensions Team in writing, by telephone or by e-mail. Contact details can be found on page 6.

The Fund’s own website - www.falkirkpensionfund.org - was refreshed during 2021/22. It contains guides and information about various aspects of the LGPS and the Fund. Topical items are uploaded to the News Section.

As well as the website, wider communication is achieved through emails, publication of committee minutes, annual newsletter and payslip messaging facility. The range of subject matter includes actuarial issues, benefits, regulatory changes and investment performance.

Administration Outlook for 2022/23
In the year ahead, the Administration expect to be undertaking developments in the following areas:

- McCloud and Goodwin remedies
- Roll out of i-connect
- Member Self Service facility
- GMP Reconciliation
- E-payslips for pensioners
- Preparation for 2023 Fund Valuation

Investment Policy

Overview
Investment policy covers a broad range of topics including the Fund's investment management arrangements; its investment strategy, principles and beliefs; and its approach to responsible investment encompassing environmental, social and corporate governance matters (i.e., ESG).

This section of the Annual Report outlines the following:
- Statement of Investment Principles
- Investment Management Arrangements
- Investment Strategy
- Policy Groups (i.e. high level asset allocation)
- Comparison of Actual and Strategic Asset Allocation
- Investment Mandates and Managers

The Fund's approach to ESG is set out in the Responsible Investment Section of the Annual Report.

Statement of Investment Principles
The Statement of Investment Principles (SIP) describes the objectives, policies and principles adopted by the Pensions Committee in the investment of Fund monies.

It also outlines the governance arrangements and high-level principles which determine and guide investment policy. The SIP records formally that the primary objective of the Fund is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment. It also affirms that the investment objective is to achieve a return on Fund assets which is sufficient over the long-term to meet the funding objectives agreed in the Funding Strategy Statement

The SIP sets out the Fund's investment strategy and details how the Fund, by investing in a broad range of asset classes and by balancing risk and return, intends to achieve the necessary return on its assets. The SIP documents that both Fund and Manager performance are measured by an independent performance specialist against agreed benchmarks. The SIP also describes the approach to more operational issues such as stock lending, the use of derivatives and currency risk as well as the extent to which the Fund complies with the CIPFA Principles for Investment Decision Making.

The most recent version of the SIP was approved by the Pensions Committee in June 2021 following a strategic review undertaken with the Lothian and Fife Pension Funds and supported by Fund actuary, Hymans Robertson. Working collaboratively means that all three Funds have:
- common investment beliefs, and
- a common taxonomy for asset classifications (e.g., Equities, Real Assets, etc).

Investment Management Arrangements
The investment of Fund monies is undertaken by a range of third-party investment managers. Safeguarding of Fund assets is managed by the Custodian, Northern Trust. Performance Measurement is carried out by Portfolio Evaluation.

Under the Fund's governance arrangements, the Pensions Committee is responsible for setting high level investment strategy and the Chief Finance Officer is responsible for implementation (i.e. deciding the investment managers to be used and the amount of capital allocated to each manager for investment).

Both the Committee and Chief Finance Officer receive advice from the Joint Investment Strategy Panel (JISP) which consists of two FCA qualified investment professionals from the Lothian Pension Fund as well as three independent external investment advisers. The arrangement is a key part of the collaboration between Falkirk, Fife and Lothian Pension Funds which entails LPFI Limited (LPFI) providing investment services.

In addition to their participation in the JISP, LPFI act as the investment manager for several of the Fund's mandates. They also provide the Fund with an advisory and arranging service for investments in real estate and private markets. LPFI is a wholly owned subsidiary of Lothian Pension Fund and is authorised and regulated by the Financial Conduct Authority to carry out activities, including advising, arranging and managing investments.

All mandates – including those managed by LPFI - are underpinned by Investment Management Agreements or similar legal instruments to ensure that Fund monies are invested in compliance with the terms of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010.

The in-house team is responsible for co-ordinating the investment management arrangements including quarterly reconciliations between manager, custodian, and performance specialists. This includes various equity and bond mandates as well as property, infrastructure, and private markets. Asset valuations are available to the Pensions Team via an on-line portal provided by Northern Trust.

During 2021/22, the Fund made an initial allocation to US Treasury Inflation Protected Securities (TIPS) and made further allocations to a passive UK Index Linked Gilts mandate – both mandates being managed by LPFI. Further allocations were also made to the Pictet Global Environmental Opportunities which had been initially funded in March, 2021.

Investment Strategy
Investment strategy was reviewed by the Pensions Committee in June 2021 with proper advice from the Fund advisers and the Chief Finance Officer.

The review involved the consideration of various funding scenarios using the Hymans Robertson asset/liability model. The conclusion was that given the negative real returns on gilts and the ongoing uncertainty as to when interest rates would normalise, it was appropriate to continue with the existing strategy. A number of minor changes were made, including:

- renaming the Gilts Policy Group to the Liability Driven Investment Group (LDI) to emphasise the liability matching credentials of gilts, and
- adjusting the permitted ranges for the Policy Groups to avoid unnecessary trading when limits are breached

The main objective of the Fund's Investment Strategy remains achieving a return on assets which meets the overall funding objective – to be able to meet long term benefit commitments.

The investment strategy is weighted strongly towards equities and other return seeking assets. This is consistent with maintaining stable employer contributions; having a funding target of 100%; and at least a 70% chance of achieving the funding target by 2040.

Under the strategy, assets are categorised into one of five Policy Groups, with each having its own return target. The Policy Groups contain assets with similar risk and return characteristics, but which are not completely correlated with one another. Policy Groups are the key determinants of risk and return for the Fund and are the main focus of attention for the Committee. The blended return from the five policy groups is intended to allow the funding objective to be met.

The rise in bond yields during 2021/22 and the increased strategic allocation to the LDI policy group has prompted the Fund to make allocations to this policy group taking advantage of the improved returns and reducing funding risk.

The Committee and JISP, supported by LPFI and the in-house team, review investment issues on an ongoing and quarterly basis. The next formal review of investment strategy is expected to take place in 2024 on conclusion of the 2023 Fund Valuation.

Policy Groups

The Pensions Committee is responsible for setting the allocation to the five Policy Groups (Equities, Other Real Assets, Non-Gilt Debt, LDI and Cash). The Chief Finance Officer is responsible for deciding the allocation of capital to subordinate asset classes within each Policy Groups and ultimately to the investment managers.

The agreed target allocation to the Policy Groups is as follows:

Policy group	Strategic allocation	Acceptable range	Long-term expected return
Equities	60%	50% - 70%	Gilts + 3.5%
Other Real Assets	20%	10% - 30%	Gilts + 2.5%
Non-Gilt Debt	10%	0% - 20%	Gilts + 1.0%
LDI	10%	0% - 20%	Gilts + 0.0%
Cash	0%	0% - 10%	0.0%
Totals	**100%**		**Gilts + 2.8%**

Equities include public and private equity in the UK and global markets. Investment in equities is designed to capitalise on the returns that come from investing in successful businesses. The return target for equities is Gilts plus 3.5%. The Fund will tend to target strategies that match the returns from equity benchmarks but with less than benchmark risk. The strategies will also seek to capture returns and deliver diversification through characteristics such as manager, factor style, market cap, geographic and sectoral stock selection.

Other Real Assets includes Infrastructure and Property. These assets are designed to deliver stable, lower risk returns throughout the high and lows of the economic cycle, and invariably with some inflation linkage.

Non-Gilt Debt includes Corporate Bonds and direct lending in private markets (Private Debt). These assets are held for their defensive qualities, including their lower volatility and stable income generation characteristics. Private Debt investments are with managers who invest in senior debt with strong covenants and minimal default risk.

LDI relates to debt instruments issued by the UK Government. They are held by the Fund for their liability matching qualities (n.b. long dated index linked gilts can be purchased to closely match the future expected cash flows of the Fund). Increasing the allocation to this Policy Group reduces funding volatility, however, if the Fund was invested solely in Gilts, the expected return would be significantly less than the Fund's target return of Gilts plus 2.8% and employer contribution rates would be correspondingly higher than at present.

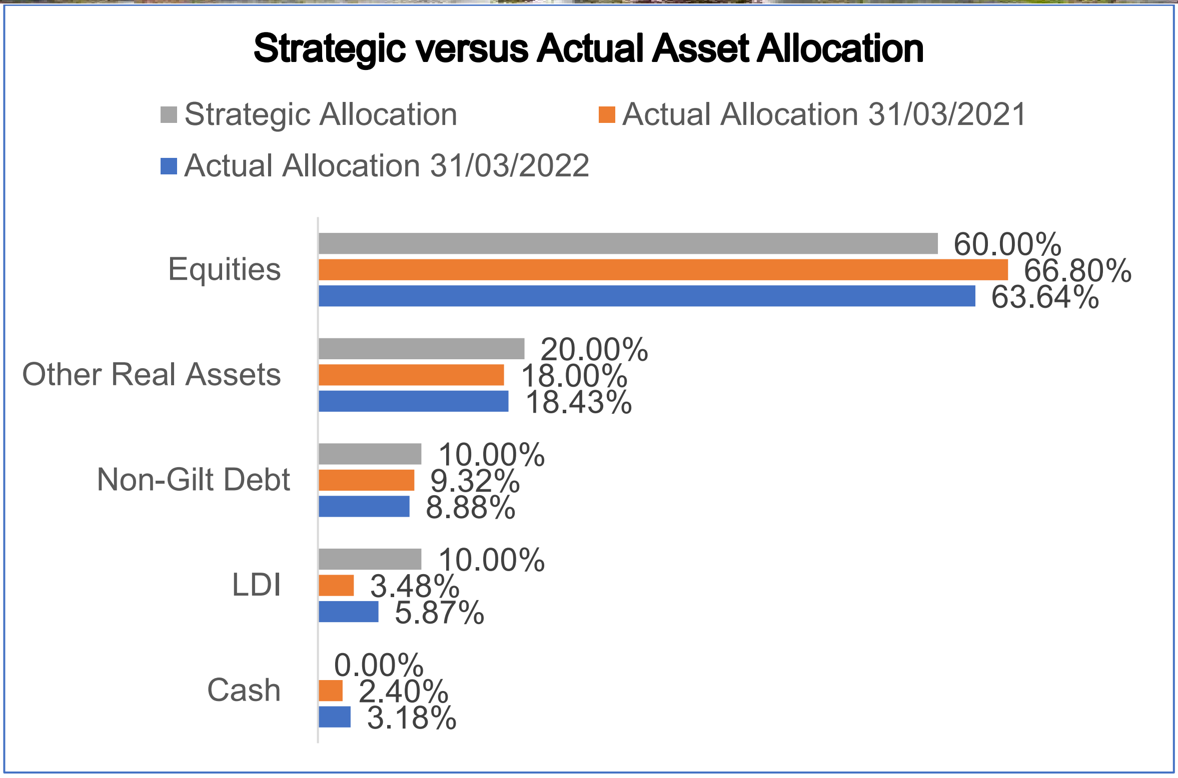
Cash is held pending the availability of suitable investments in the other policy groups or in times of low interest rates and unstable market conditions as a defensive proxy for short-dated bonds.

To avoid unnecessary and costly re-balancing, the Committee has agreed that the level of assets held in each Policy Group may sit within an acceptable range.

Comparison of Actual and Strategic Asset Allocation

A comparison of the Fund's actual Policy Group holdings versus the strategic weightings is made by the Joint Investment Strategy Panel every quarter and reported to the Pensions Committee and Pension Board.

The position at 31 March 2022 is shown in the following table overleaf



Source: Falkirk Council Pension Fund

The chart shows that the actual allocation is at variance with the strategic allocation. This is not unusual given the way asset prices move around within markets.

As at 31 March 2022, the actual allocation to each Policy Group was within the acceptable range set by the current strategy. Equities are close to the upper limit of their allowable range, however, a reduction to the Baillie Gifford Diversified Growth Fund has been made post 31 March 2022 and will have moved the equity position back in the direction of the strategic allocation.

In relation to the other Policy Groups, the Fund is underweight its strategic allocation. The exception is Cash, where an allocation has been retained in anticipation of capital calls being made for infrastructure and property assets. After a significant reduction in cash levels during 2020/21, cash has remained broadly unchanged during 2021/22.

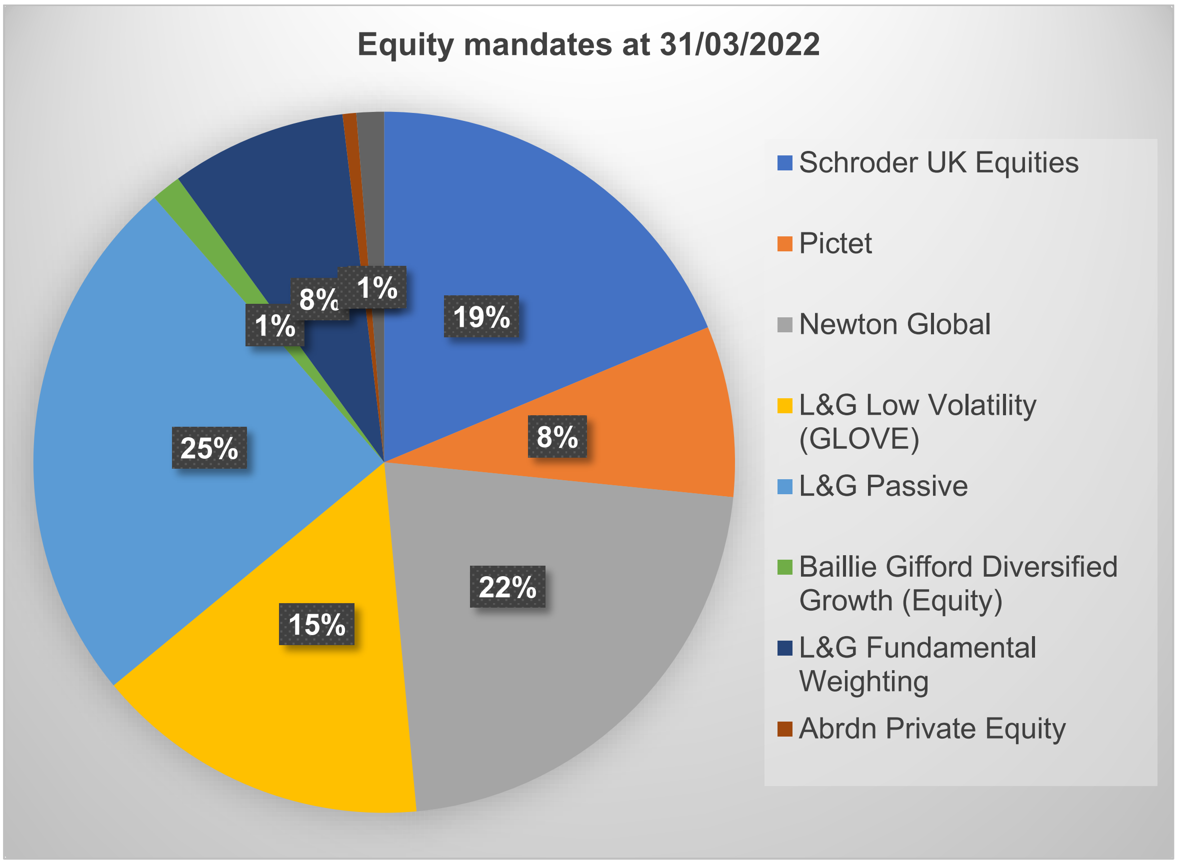
Overall, the JISP and the Pensions Committee are content with the positioning of the Fund, recognising that broader market conditions and tactical considerations impact the pace with which the actual allocation can move towards the strategic allocation.

Investment Mandates and Managers

As at 31 March 2022, the Fund's allocation of assets to Policy Groups and investment mandates was as shown in the undernoted pie charts:

Equities

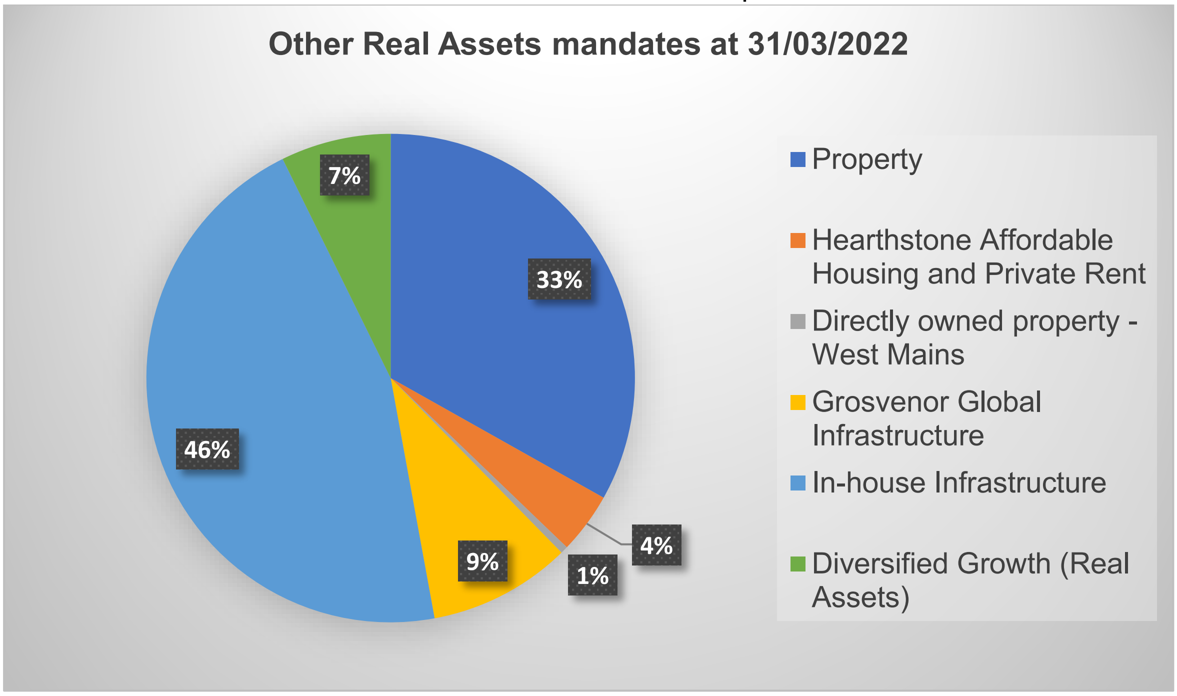
At 31 March 2022, 63.6% of the Fund's assets were invested in Equities as follows:



Source: Falkirk Council Pension Fund

Other Real Assets

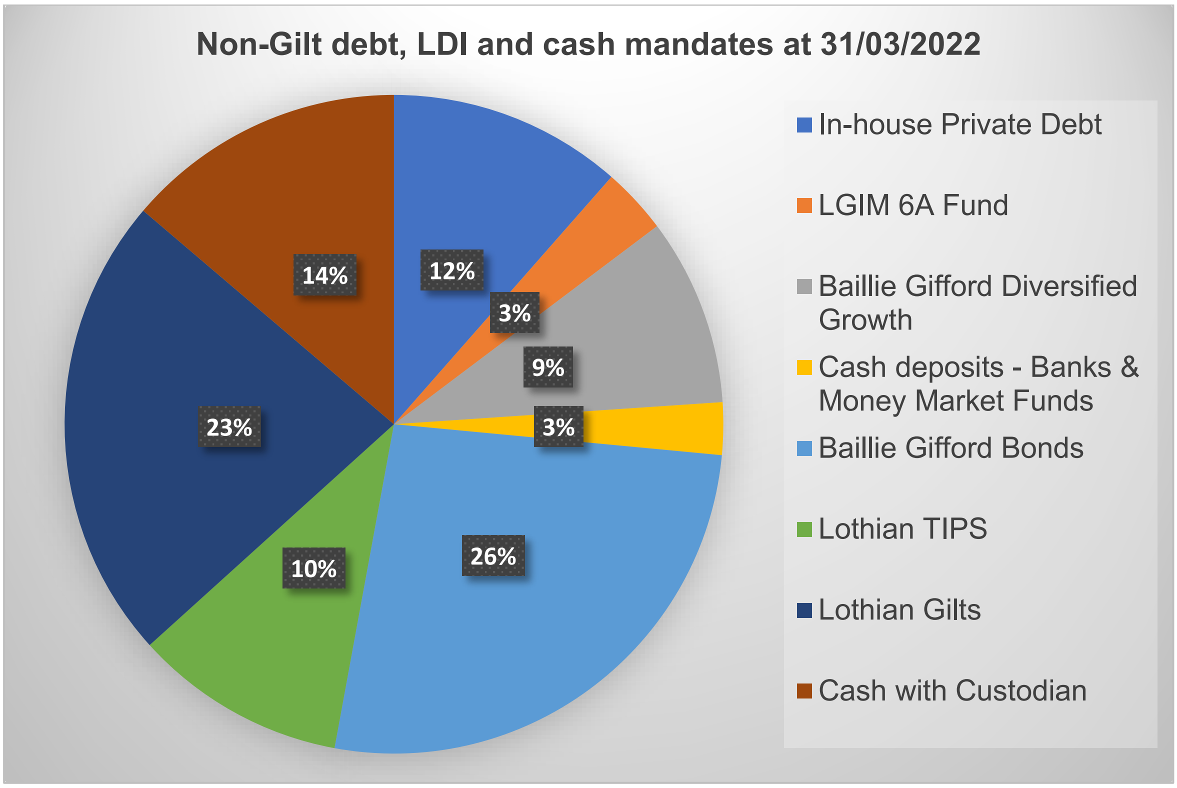
Other Real Assets formed 18.4% of the Fund and were split as shown below:



Source: Falkirk Council Pension Fund

Non-Gilt Debt, LDI and Cash

The remaining Fund assets were allocated between Non-Gilt debt (8.9%), LDI (5.6%) and Cash (3.2%), managed as follows:



Source: Falkirk Council Pension Fund

Investment Performance

This section of the Annual Report deals with the Investment Performance of the Fund during 2021/22 and over longer time periods. The initial part deals with the returns at a whole Fund level and the latter part looks at how returns have been delivered by individual elements of the portfolio, including policy group and mandate.

Fund Investment Performance

During the year, the Fund achieved a return of 13.1% outperforming its composite benchmark of 6.2% by 6.9%. Longer term performance (i.e. 20 years) is 7.9% p.a. This is marginally higher than the long-term benchmark return and comfortably higher than the gilts plus 2.8% return target of the current investment strategy.

The upward momentum in returns which began in 2020/21 with the vaccine roll-out, global stimuli and a new US Presidency, was maintained in 2021/22 despite a plethora of headwinds including renewed lockdowns, Covid variants, energy challenges, inflation, Chinese regulation and, most tragically, war in Europe. The Equity, Real Asset and Non-Gilt Debt policy groups all contributed to the 2021 outperformance validating the Fund's preference for lower risk, income generating assets and for those with a Value rather than a Growth tilt.

Longer term returns over 3, 5 and 10 years and since inception (2001) show that the Fund has beaten its benchmark over longer time periods but fallen short of it more recently. Performance against the 3-year benchmark has coincided with the period when the Fund's value "style" was out of favour with markets. Similarly, having minimal exposure to "new wave" technology/media stocks (due to concerns over valuation) such as Facebook, Amazon, Netflix, Apple, Tesla, has been a drag on the 3 year performance.

The detailed returns over all time periods are as set out in the table below:

Returns	1 year (2021/22) %	3 years % per annum	5 years % per annum	10 years % per annum	Inception % per annum*
Fund Return	13.1	8.9	7.7	9.5	7.9
Benchmark Return	6.2	9.1	7.2	8.4	7.4
Excess Return	+6.9	-0.1	+0.4	+1.1	+0.5

*Inception records performance from 2001 when the current custodian appointment was made.

The following table analyses the 2021/22 performance of the five Policy Groups:

Policy Group	**Value £m (mid)**	**Weight %**	**Fund Return %**	**Benchmark Return %**	**Excess Return %**
Equities	2,031	63.6%	+15.0	+12.4	+2.6
Other Real Assets	588	18.4%	+24.9	-4.7	+29.6
Non-Gilt Debt	283	8.9%	-0.7	-5.0	+4.3
LDI	188	5.9%	-1.0	+3.9	-4.9

Cash	102	3.2%	+0.1	+0.1	0.0
Total Fund	**3,192***	**100%**	**+13.1**	**+6.2**	**+6.9**

*Fund valuation in the table is expressed at mid pricing, whereas net assets as stated in the Accounts are prepared on bid pricing

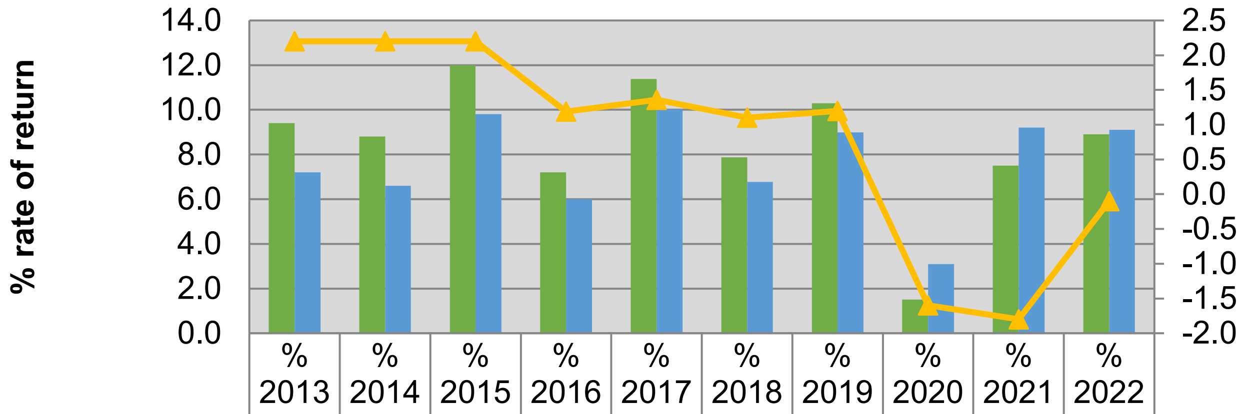
The Chief Finance Officer and the JISP assess returns on a regular basis in the context of risk, mandate constraints and objectives. As well as the total Fund return being measured against an overarching benchmark, the policy groups are measured against specific benchmarks which reflect the return expectations for the asset class. Performance is reported at the quarterly Committee and Board meetings. Benchmarks are as follows:

Policy Group	Benchmark / Performance Objective
Equities	MSCI All Countries World Index Net
Other Real Assets	FTSE Actuaries Gilts Over 15 years +2.5% p.a.
Non-Gilt Debt	iBoxx Sterling Non-Gilts +0.2% p.a.
LDI	FTSE Actuaries Index Linked Gilts Over 15 Years
Cash	SONIA
Total Fund Benchmark	Composite of above benchmarks (excl. Cash)

Despite the positive nature of returns in 2021/22, caution should be exercised in assessing performance over such a very short-term period. The Fund has liabilities stretching far into the future and thus performance should be considered in a context that allows short term market “noise” to be averaged out. When reviewing mandates, the Joint Investment Strategy Panel will look at longer term performance such as over a complete economic cycle.

The chart on the next page gives the 3 yearly rolling average returns for the Fund over the past 10 years. The steady outperformance in the earlier part of the last decade reflects the generally benign conditions enjoyed by investors enjoyed based on low interest rates and central bank support. The 3 yearly returns at 31 March 2020 and 31 March 2021 capture the sharp market dip caused by the Covid pandemic and the subsequent recovery triggered by the vaccine roll out. The chart shows that only in those two years of extreme circumstances has the Fund failed to outperform the 3 yearly benchmark.

Annualised 3 yearly returns ending 31 March (% per year)



	% 2013	% 2014	% 2015	% 2016	% 2017	% 2018	% 2019	% 2020	% 2021	% 2022
Fund	9.4	8.8	12.0	7.2	11.4	7.9	10.3	1.5	7.5	8.9
Benchmark	7.2	6.6	9.8	6.0	10.0	6.8	9.0	3.1	9.2	9.1
Relative	2.2	2.2	2.2	1.2	1.4	1.1	1.2	-1.6	-1.8	-0.1

* Fund benchmark changed from 1st of April 2019

Comparative Performance

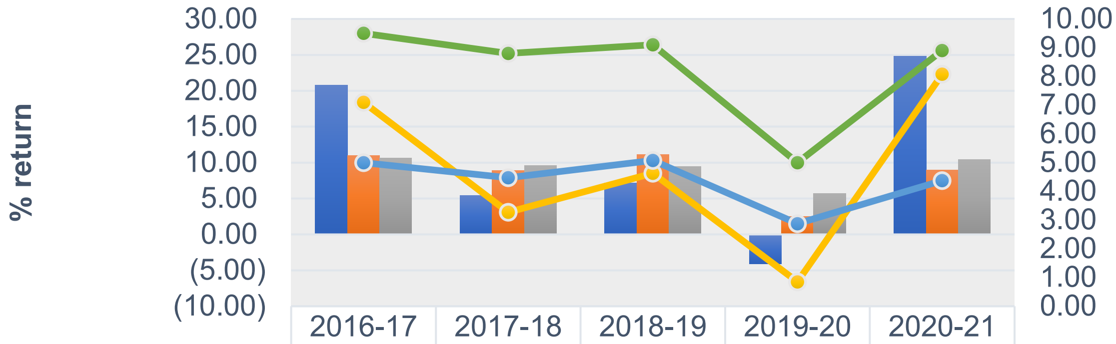
To give an indication of how the Fund has performed in comparison with other Scottish Funds, the undernoted table shows the one, three and five year returns for the Fund against the average for Scottish LGPS Funds over the same time periods. Both sets of returns are as at 31 March 2021, since the average results as at 31 March 2022 will not be available until later this year:

	1 year (2020/2021) %	3 years % pa	5 years % pa
Fund Return	22.3	7.5	8.9
LGPS Scottish Average	24.8	9.0	10.5

n.b. The LGPS Scottish Average is based on the CIPFA Scottish Directors of Finance Performance Indicators 2020/21.

The next chart shows fund performance over the past five years versus the Scottish LGPS average looking at 1, 3 and 5-year annualised returns.

Absolute Fund returns versus Scottish average over 1, 3 and 5 years



	2016-17	2017-18	2018-19	2019-20	2020-21
1 year (Scottish average)	20.76	5.42	7.13	(4.11)	24.83
3 year (Scottish average)	11.01	8.91	11.10	2.50	8.99
5 year (Scottish average)	10.61	9.61	9.43	5.71	10.46
1 year (Fund)	18.40	3.10	8.50	(6.60)	22.30
3 year (Fund)	10.00	7.90	10.30	1.50	7.50
5 year (Fund)	9.50	8.80	9.10	5.00	8.90

Source: CIPFA Scottish Directors of Finance benchmarking

The Fund returns are generally below the Scottish average. This is attributable to the Fund having a lower risk, lower return strategy than comparators, but also reflects the fact that several Scottish Funds made allocations in recent years to growth style mandates which have performed well, thus enhancing the average return. Falkirk's outperformance of its own benchmark in 2021/22 is perhaps a sign that this trend is starting to unwind.

Manager Monitoring

The Chief Finance Officer appoints the Fund's investment managers under powers delegated by the Pensions Committee. Appointments are made having regard to guidance from the Joint Investment Strategy Panel.

Regulation 10 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) 2010 (SSI 2010/233) requires the monitoring of investment managers' performance each quarter. Compliance is achieved by the internal teams at Falkirk and Lothian:

- analysing quarterly manager reports
- conducting regular meetings and conference calls with managers
- reporting outcomes to the Joint Investment Strategy Panel

The Joint Investment Strategy Panel uses a traffic light system to assess overall manager effectiveness including portfolio construction, risk and return, and any wider business activities deemed to be of relevance.

The JISP has regard to the fact that changing managers unnecessarily will incur extra costs for the Fund since assets may have to be transacted before a mandate is entrusted to a new manager.

Finally, each quarter, the Pensions Committee and Board are provided with reports on Fund and Manager performance and on any Manager issues.

Manager Performance
The table below shows the annualised return achieved by managers of the larger Fund mandates over one-, three- and five-year periods to 31 March 2022:

	Absolute Return			Benchmark			Relative to Benchmark		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Mandate	%pa	%pa	%pa	%pa	%pa	%pa	%pa	%pa	%pa
Equities									
Newton Global	11.0	13.6	11.1	12.4	13.4	10.5	-1.4	0.2	0.6
Schroder UK	21.3	7.0	5.9	13.0	5.3	4.7	8.2	1.7	1.2
LGIM Passive	12.0	10.7	8.7	11.9	10.6	8.6	0.0	0.1	0.1
LGIM Reduced Carbon Path.	14.6	11.8	8.6	14.3	11.7	8.5	0.3	0.1	0.0
LGIM Glove	18.8	n/a	n/a	12.4	n/a	n/a	6.4	n/a	n/a
Pictet Global	7.7	n/a	n/a	12.4	n/a	n/a	-4.7	n/a	n/a
Private Equity	38.7	11.9	n/a	12.9	13.9	n/a	25.9	-2.0	n/a
Real Assets									
Infrastructure	25.2	14.2	n/a	-4.7	1.8	n/a	29.9	12.4	n/a
Property	27.3	n/a	n/a	20.9	n/a	n/a	6.3	n/a	n/a
Affordable Housing	4.9	5.8	3.4	11.0	6.3	5.7	-6.1	-0.5	-2.3
Non-Gilt Debt									
Baillie Gifford Corp. Bonds	-4.3	1.3	n/a	-5.1	1.1	n/a	0.8	0.2	n/a
Baillie Gifford Inv. Grade Bonds	-4.6	1.6	n/a	-5.1	1.4	n/a	0.5	0.2	n/a
LGIM 6A Fund	-5.1	n/a	n/a	-5.1	n/a	n/a	0.0	n/a	n/a
Private Debt	7.5	7.0	n/a	4.2	4.4	n/a	3.3	2.7	n/a
TIPS	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LDI									
LPFI Index Linked Bonds	3.7	n/a	n/a	3.9	n/a	n/a	-0.2	n/a	n/a
Baillie Gifford Investment Grade Fund	-4.3	0.8	n/a	-5.1	-0.5	n/a	0.8	1.3	n/a
Baillie Gifford Diversified Growth	4.1	4.1	3.7	3.7	3.9	2.5	0.4	0.2	1.2

n/a – mandate not held for required period of time or no data available

Comment on Manager Performance

Strong returns from Equities and Real Assets led the way in delivering a Fund return of 13.1% and more than compensated for the slightly negative return from the Non-Gilt Debt and LDI policy groups.

Of the equity managers, significant outperformance was delivered by the Schroder UK Equity portfolio and the Global Low Volatility Equity (GLOVE) portfolio. The economic headwinds which emerged in 2021/22 suited the “Value” and “Low Risk” styles of these mandates as markets re-focused on fundamentals rather than fashionable meme stocks. The GLOVE mandate is managed by LGIM and rebalanced on an annual basis through a set process which identifies the 200 stocks with the lowest volatility characteristics over the preceding 5 years.

The Newton Global Equity mandate delivered a creditable absolute return of 11% but was marginally behind its MSCI All World benchmark. The portfolio, which contains around 40 stocks, was negatively impacted by its financial and materials holding and through a lack of exposure to energy stocks. The other global mandate – the Pictet Global Environmental Opportunities Fund – returned 7.7% but like Newton was challenged in Quarter 4 when the Federal Reserve’s hardening response to US inflation and the impact of the war in Ukraine weighed heavily on investor sentiment for Growth stocks.

The Fund’s passive equity mandate which is managed by Legal and General (LGIM) and which has a significant weighting to the value-oriented UK market performed as expected delivering a 12% return.

A slightly better return of 14.6% was achieved by the Fund’s rules-based mandate, also managed by LGIM. With this vehicle, higher rated stocks are sold according to a strict timetable with the proceeds being invested into lower rated stocks. In May 2021, the benchmark for the mandate was adjusted so that in addition to tracking an index based on fundamentals (e.g. dividends, sales, etc) it targets a gradual reduction in annual carbon intensity.

The returns from the Fund’s Private Equity managers (Abrdn and Wilshire Associates) of 38.7% were very strong. The returns were boosted by a number of asset realisations during the year as the underlying Funds reached their mature stage. No new private equity commitments having been made since 2014, and the remaining assets now represent less than 1.5% of total Fund value.

The dispersion of returns amongst mandates in 2021/22 is consistent with the Fund’s aim of investing in a range of equity strategies which behave and perform differently to each other.

The infrastructure portfolio consists of a Fund of Funds vehicle managed by Grosvenor Capital and a number of funds separately managed by specialist infrastructure managers including Ancala, Ardian, Dalmore, Equitix, Innisfree, KKR and Macquarie. Commitments are made through collaborative arrangements with Lothian, Fife and

other LGPS Funds. A highly creditable return of 25.2%, outstripping the gilts plus benchmark by 29.9%, was achieved. Equally important is the fact that a long term return of 10% p.a. is being delivered from an asset class which is largely lower risk; uncorrelated with the economic cycle; and often fully or partially inflation linked.

The Fund’s property holdings are spread across 15 funds being a mix of balanced funds and more specialist funds. The holdings are managed by a range of managers, including Schroders, Blackrock and LGIM with oversight from the Falkirk and Lothian teams. During the year, new commitments were made to the Unite Student Accommodation Fund and the Octopus Healthcare Fund – both Funds being deemed “alternative” property diversifiers. The easing of Covid restrictions in 2021/22 allowed most of the underlying funds to contribute to the strong 27.3% return achieved.

A separate mandate is invested in Affordable Housing and is managed by property specialists Hearthstone. Properties are all located in Scotland in Perth, Aberdeen, Haddington, Rutherglen, Dalkeith, South Queensferry, Denny and Bo’ness. Returns have stabilised as the mandate has become more fully invested.

Baillie Gifford manages various debt assets for the Fund, essentially Gilts and Investment Grade Corporate Bonds. Gilts encountered a difficult year as concerns about inflation, rising interest rates and the ending of looser monetary policy pushed yields higher and prices lower. Returns were negative as a result, albeit slightly ahead of the benchmark,

During the second half of 2021/22, the Fund allocated capital to a US TIPS mandate managed by LPFI. The allocation was made defensively in anticipation of rising inflation since with TIPS both the coupon payments and the principal are adjusted in line with the US Consumer Price Index. The mandate is managed by LPFI on a passive basis tracking the ICE Bank of America Over 15 Year TIPS index. LPFI also manage a passive index linked (UK) gilts portfolio for the Fund. Over the year, real yields fell slightly, as inflation linked gilts outperformed nominal gilts due to the rise in inflation expectations exceeding the rise in nominal yields over the period.

The Non-Gilt Debt assets also include investments in Private Debt funds managed by Madison, Alcentra, Barings and BlackRock. The asset class is relatively new for the Fund but has pleasingly outperformed in all years since first being funded in 2019. The return in 2021/22 was 7.5% exceeding the cash plus benchmark by 3.3%.

The Baillie Gifford Diversified Growth Fund contains a wide variety of asset classes. The Fund returned 4.1% during the year. Returns from equity and infrastructure holdings were positive however the absolute return strategies within the portfolio tended to disappoint.

Investment Holdings

The Fund's ten largest direct equity holdings at 31 March 2022 are as listed below:

Name of Stock	Market Value as at 31/03/2022 in £	Sector
MICROSOFT CORP COM	27,491,455	Information Technology
ALPHABET INC CAPITAL	23,147,478	Communication Services
APPLE INC COM	17,833,147	Information Technology
HSBC HLDGS	17,721,066	Financials
ANGLO AMERICAN	17,032,252	Materials
AMAZON COM	16,172,802	Consumer Discretionary
AVIVA	15,102,703	Financials
ROCHE HLDGS AG	14,869,135	Health Care
SHELL PLC	14,572,771	Energy
IMPERIAL BRANDS PLC	14,292,656	Consumer Staples

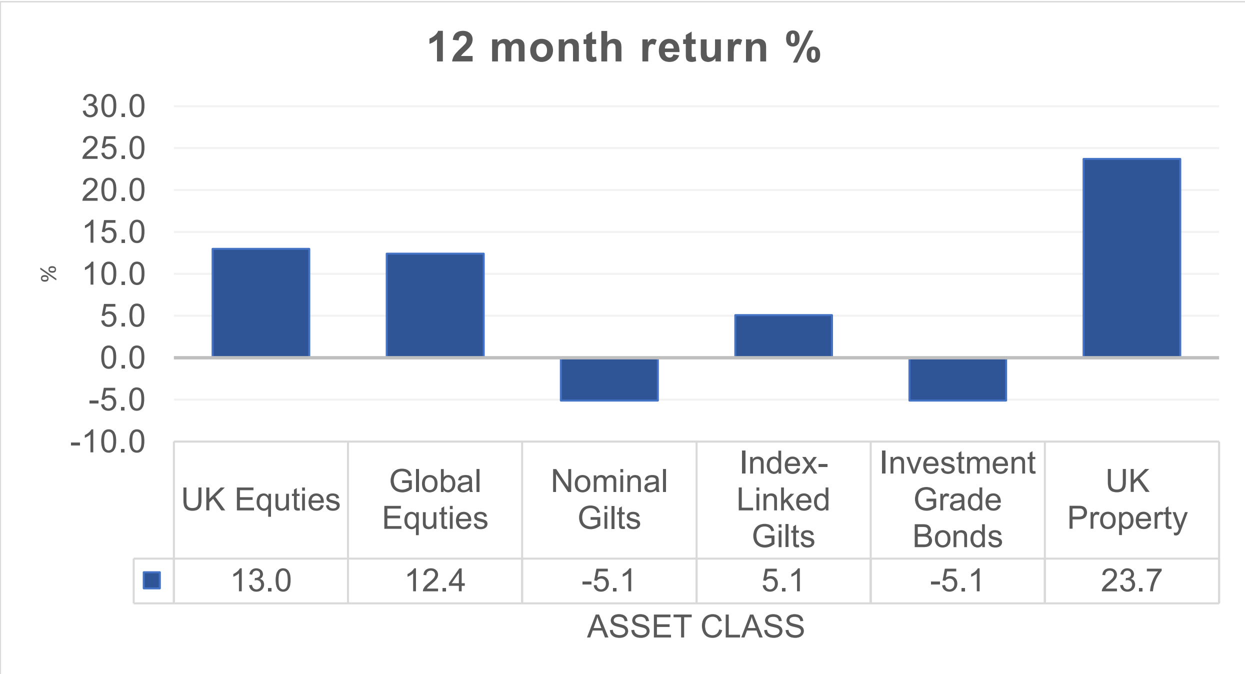
The scheme rules specify that the maximum amount an LGPS Fund may have in a single holding is 10% of the total fund value unless it is held in a pooled vehicle.

The Fund's single largest holding (excluding pooled funds) is in Microsoft and is approximately 0.85% of the Fund value, and therefore comfortably within the statutory ceiling.

A full list of Fund holdings can be found on the Fund website.

Investment Market Review

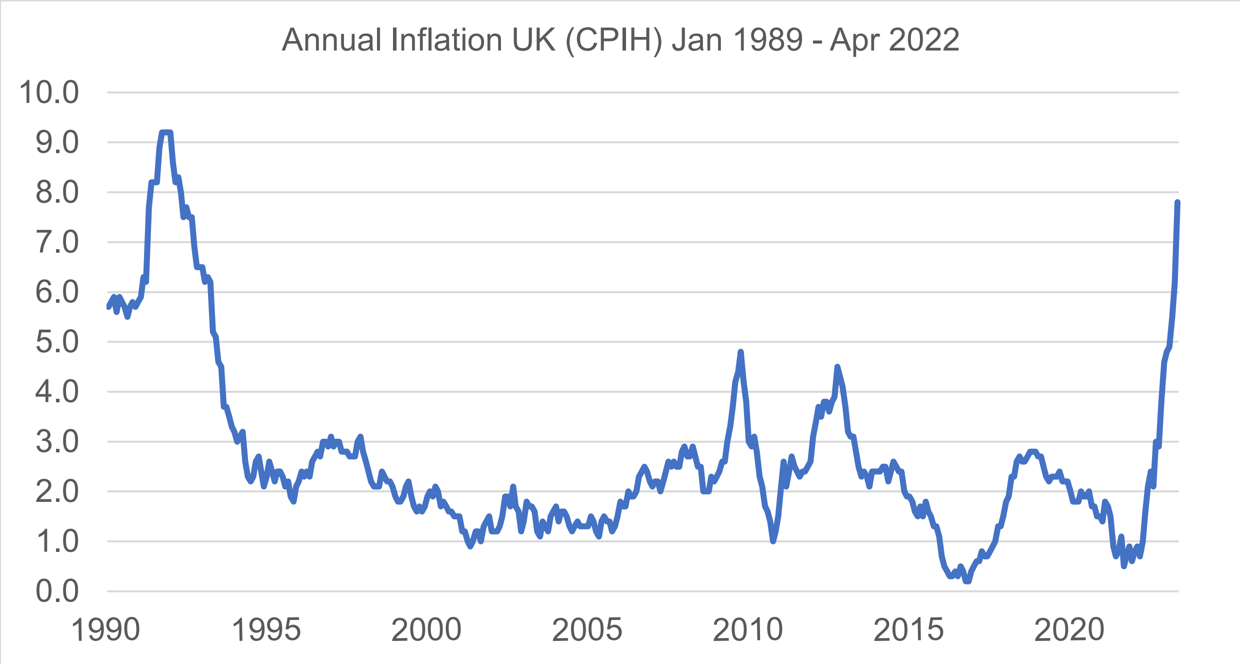
For the 12 months to 31 March 2022, UK equities (FTSE All Share) returned +13% (source: FTSE), while global equities returned +12% (MSCI ACWI, in GBP (source: MSCI)). Returns for sterling-based investors were boosted by a weaker pound (global equities returned +7% in USD terms) and also underpinned by strong returns from developed markets (+16% in GBP), in contrast to emerging market equities which fell (-7% in GBP), reflecting the different pace at which economies are recovering from COVID-induced slowdowns.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation

Supply chains across the global economy experienced significant disruption as some countries re-opened and others locked back down. Rising energy prices, boosted by a combination of rebounding demand and an unexpected shortfall in renewables generation, have also been a major factor in inflation moving progressively higher over the past year. Against this backdrop, government bond yields rose over the period. Previous talk of inflation being transitory seems to have receded, with most central banks around the world having started to move rates higher. Corporate bonds, which had traded in a relatively narrow range over much of 2021, sold off during Q1 2022 as government bond yields rose and credit spreads widened, while in the UK, gilt yields also rose.

Loose monetary policy, brought about by decades of disinflation, has collided with soaring commodity prices, brought about by a combination of underinvestment in production growth and the invasion of Ukraine by Russia impacting commodity supply. Meanwhile, the pandemic continues to disrupt society and economic growth, with China currently in rolling lockdowns across much of the country. While central banks are now tightening monetary policy through higher rates to combat inflation (see chart on the next page), many believe that the global economic outlook has already begun to deteriorate, and the concern is that central banks may tighten too far. The heightened volatility in markets observed in early 2022 seems likely to continue for some time yet.


Annual Inflation UK (CPIH) Jan 1989 - Apr 2022
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
1990
1995
2000
2005
2010
2015
2020

Source: ONS

Responsible Investment

Overview

Responsible investment is an approach to investing that aims to incorporate Environmental, Social and Governance ("ESG") considerations into investment decision making, so as to manage risk more effectively, generate sustainable, long-term returns and produce good outcomes. Increasingly, good stewardship is seen in terms of how a fund allocates and oversees its capital in order to create sustainable value without this being to the detriment of economies and wider society.

The Fund considers itself to be a responsible investor and has set out its approach to ESG matters in its Statement of Responsible Investment Principles (SRIP). The SRIP was developed and adopted by the Fund during 2020/21. The principles flow from the following high-level Fund beliefs, that:

- responsible investment should reduce risk and improve returns
- fiduciary duty is paramount (i.e. the Fund must act in the best interests of members and employers)
- the Fund should exercise its ownership rights in a responsible way, engaging constructively with companies, rather than divesting and
- that where material risks remain following a reasonable period of engagement activity with no prospect of improvement, the Fund will divest from a position.

The Fund expects its managers to report regularly on ESG matters and to have regard to the SRIP when constructing actively managed portfolios. Managers invariably produce a standalone quarterly ESG report or include a summary of engagement work in their quarterly investment report.

The Fund's legal purpose is to invest stakeholder monies in order to meet future pension payments. Responsible investment must therefore be seen in the context of the need to deliver Fund solvency. Whilst the Fund may legally take non-financial factors into account when setting its investment policy, this cannot be done if it would result in a material reduction in financial returns.

Statement of Responsible Investment Principles

The Fund's responsible investment principles are built around the Principles for Responsible Investment ("PRI"). Previously known as the United Nations Principles for Responsible Investment, PRI is an international network of asset owners and managers who are committed to the PRI's six key principles to work collaboratively towards best practice in responsible investing.

Although not a signatory to the PRI, due to the resourcing implications for a fund of Falkirk's size, the Fund bases its "RI" approach on the PRI principles. These are shown below, together with how these are being addressed by the Fund:

PRI Principle	Fund Response
To incorporate ESG issues into investment analysis and decision-making processes.	Managers are challenged at quarterly meetings to explain how ESG issues are part of the investment decision making process.
To be active owners and incorporate ESG issues into our ownership policies and practices.	The Fund uses its voting rights at AGM/EGM resolutions; has co-sponsored AGM resolutions; and has joined class actions. The Fund has appointed Hermes EOS to engage with corporates on ESG issues.
To seek appropriate disclosure on ESG issues by the entities in which we invest.	Managers produce detailed ESG reports describing engagement activity and providing wider comment on ESG issues.
To promote acceptance and implementation of the principles within the industry.	The Fund is a member the Local Authority Pension Funds Forum (LAPFF) and other industry wide bodies.
To work together to enhance our effectiveness in implementing the principles.	The Fund is a member of LAPFF; the Institutional Investors Group on Climate Change; Climate Action 100 and the Scottish Responsible Investors Group (see page 65 for further details).
To report on our activities and progress towards implementing the principles.	A summary of Voting and Corporate Governance activity is provided quarterly to the Committee and Board and is publicly available as part of the Committee papers. This is augmented by reports from our engagement specialists Hermes EOS.

Stewardship and Corporate Governance

As with the PRI, the UK Stewardship Code sets out the best practice principles that asset managers are expected to follow when managing "other people's money", including the extent to which they should play an active and positive role in engaging on corporate governance matters for the benefit of their clients.

With effect from 1 January 2020, a new Code has been introduced which has “raised the bar” in terms of the standards that signatories are required to meet and is consistent with the focus on ESG matters by markets, investors, and society in general.

Falkirk will consider the resource implications of signing up to the Code but in the short term will comply with spirit of the Code by:

- publicly disclosing stewardship activities
- having a robust policy on managing conflicts of interest
- monitoring investee companies in conjunction with managers
- acting collectively with other investors (e.g. LAPFF)
- having a clear policy on voting and disclosing that activity
- participating selectively in class actions

More information on the Fund's approach to Stewardship is contained in Section 4 of the Statement of Responsible Investment Principles.

Appointment of Voting and Engagement Specialist

During 2021/22, following a joint procurement exercise with the Lothian and Fife Pension Funds, Fakirk appointed Hermes EOS as its specialist voting and engagement provider. This was in further recognition of the role good corporate governance plays towards sustainable wealth creation and the fact that only an experienced provider with a global reach and significant client base, such as Hermes EOS, had the capacity to engage effectively with corporates and exert influence on them. As of 30 June 2021, Hermes were providing stewardship services to clients with an aggregate of £1.3 trillion of assets. Their appointment is for four years.

The Hermes approach is one of constructive engagement focusing on areas where they can improve shareholder value, or at least, prevent the loss of shareholder value.

The effectiveness of Hermes engagement is monitored through measuring progress against so-called milestones, as described below:

- Milestone 1 - the raising of an issue with the company
- Milestone 2 - recognition by the company that the concern is valid
- Milestone 3 - a plan to address the particular issue
- Milestone 4 - successful delivery of the objective.

As well as providing quarterly engagement statistics for the Fund, Hermes produce an annual report containing case studies and public policy comment. Their website - EOS Library | Federated Hermes (International) (hermes-investment.com) - contains details of their Public Engagement Plan and Responsible Ownership Principles.

Hermes approach of constructive engagement is aligned with that of the Fund as set out in the Statement of Responsible Investment Principles and as reaffirmed at the Special Meeting of the Pensions Committee and Board on 23 October 2021.

Engagement and Divestment

Rather than making its own decisions as to which companies to invest in, the Fund delegates this to specialist investment managers, who are uniquely placed to assess all risks, including ESG risks, and determine how best to fulfil the objectives of their mandate.

Holdings in certain sectors can be controversial, whether this be in fossil fuel, tobacco, defence companies or holdings in politically sensitive countries. Whilst the Fund could "screen out" these sectors – which could damage returns and would reduce diversification - it leaves those decisions to its investment managers. Where a holding is contentious, officers will check whether the issue is being monitored by Hermes and also engage with the relevant manager to understand the rationale for the holding. It is a Fund belief that engagement generally is a more effective tool than divestment, since with divestment, the Fund would cease to have any say on company activities, and shares could fall into the hands of less responsible owners.

There are however occasions when engagement is inappropriate, such as with Russian assets following the invasion of Ukraine. Throughout 2021/22, the Fund's exposure to Russian investments has been small and was declining due to the rising tensions. By the outbreak of hostilities, the Fund had no direct investments in Russian companies. It did have some indirect holdings through index tracking funds, but collectively, these holdings only amounted to c.£0.5m out of the total Fund value of c. £3 billion (i.e. 0.017%). Where possible, these assets have been sold, and if this has not been legally or logistically possible, written down to a zero value.

Impact Investment

The Fund does not set out specifically to invest in assets with a wider social or environmental benefit as this could be at variance with its fiduciary responsibilities. Nonetheless, the Fund is invested in a number of infrastructure assets many of which are located in the UK and can be considered long-term sustainable investments with positive societal benefit. These include investments in clean transport, renewable energy (wind and solar assets), as well as social infrastructure such as affordable housing, student accommodation, care homes, schools, and hospitals.

Climate Change

The risks posed by climate change and global warming have been identified as a major risk to the planet and therefore to future Fund returns. This is the view of the Task Force on Climate Related Financial Disclosures – a working group established by G20 Ministers and Central Bankers – which in a 2017 report stated that:

"*The reduction in greenhouse gas emissions implies movement away from fossil fuel energy and related physical assets........climate-related risks and the expected transition to a lower-carbon economy [will] affect most economic sectors and industries."*

"Both investors and the organizations in which they invest, therefore, should consider their longer-term strategies and most efficient allocation of capital."

The Task Force has made four specific recommendations - on governance, strategy, risk management, and metrics and targets. These form the basis for investors to hold companies to account in relation to their business future proofing and assess whether sufficient scenario analysis is being undertaken.

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

The Fund manages its climate change risk by:

- engaging with investment managers to ensure they are challenging investee companies
- encouraging managers to join the net zero managers initiative (to support the goal of net zero greenhouse gas emissions by 2050 or sooner) in line with global efforts to limit temperature rises to 1.5%. A number of the Fund's managers are already signed up for this initiative including Legal & General, Schroders and Newton.
- by being part of the Local Authority Pension Funds Forum where the collective voting strength of around 80 funds can be used to influence corporate policy
- by reporting carbon emissions on the next page
- by being members of organisations such as the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+
- by using Hermes Eos to research and advise on issues such as climate change. This may include Hermes:
    - determining whether climate strategies are robust
    - determining whether strategies include any carbon reduction targets
    - determining whether companies have sufficient Board expertise around low carbon transitioning
    - making voting recommendations on company and shareholder resolutions

Following representations from two employers that the Fund should divest from fossil fuel related investments, a Special Meeting of the Pensions Committee and Board was held on 22 October 2021. The meeting considered the matter in some detail and heard from various investment professionals. It noted the steps being taken by the Fund to address climate risk and agreed to retain the approach set out in the Fund's Statement of Responsible Investment Principles.

IIGCC and Climate Action 100+

The Institutional Investors Group on Climate Change is a European entity with more than 375 members, mainly pension funds and asset managers, across 23 countries, with over €51 trillion in assets under management. Its mission is to influence governmental policies on an international scale and to mobilise capital for the low carbon transition that is required.

The **Climate Action 100+** initiative exists to engage directly with the world's largest corporate greenhouse gas emitters to challenge them to take action on climate change. More than 700 global investors are supporting engagement efforts to improve governance, curb emissions and strengthen climate-related disclosures. The companies targeted are 100 'systemically important emitters', who account for two-thirds of annual global industrial emissions, and more than 60 others who have the potential to drive the clean energy transition.

Climate risk is one of the **Local Authority Pension Funds Forum's** (LAPFF) key themes. LAPFF's objectives are for companies to align their business models with a 1.5 degrees scenario and to facilitate an orderly net-zero carbon transition, setting meaningful targets and disclosing data.

The Scottish Responsible Investors Group.
The group consists primarily of Scottish based investors from local government and beyond and looks for opportunities to work collaboratively in the responsible investment space, including climate risk.

Measuring Climate Risk
As part of the recently adopted Statement of Responsible Investment Principles, the Fund has made the following commitments:

Commitment 1 - To measure carbon-equivalent emissions in equity portfolios.

Emissions for 2021/22 across various Fund portfolios are set out in the table below:

Manager	Portfolio Emissions
LGIM UK Equity	121.8
LGIM North America	127.9
LGIM Europe (ex UK)	113.5
LGIM Japan	87.6
LGIM Asia	192.8
LGIM Emerging Markets	385.6
LGIM Global Low Volatility	475.0
LGIM RAFI Fundamental Global Reduced Carbon Pathway Eqy Idx Fd	215.5

Newton	32.0
Schroders	185.5
Falkirk Equities Combined	181.5
MSCI ACWI	151.0

Reported emissions are the weighted average carbon intensity of each portfolio measured in tons of CO2 / $m sales. Data has been sourced from MSCI and the relevant managers.

The level of Fund emissions (equities only) versus the MSCI ACWI over the past three years is as follows:

Fund Assets/Benchmark	**2020 WACI**	**2021 WACI**	**Year on year change**	**2022 WACI**	**Year on year change**
Falkirk Equities	223	186	-16.7%	182	-2.4%
MSCI ACWI (Global Equities)	178	155	-12.9%	151	-2.6%

It is important to stress that the Fund does not invest to minimise its carbon emissions. Instead, for those investments it makes, it expects companies to be taking steps to manage their carbon risk. Three years is too short a period to draw any firm conclusions about trends, particularly when they include a global pandemic curtailing economic activity. Nonetheless, the modest downward trend in 2022 is welcome.

Commitment 2 - To put capital into projects benefiting from the low carbon transition.

The Fund's investments in the Pictet Global Environmental Opportunities Fund and, separately, into a Scottish offshore windfarm project and onshore Hydro scheme are consistent with this commitment.

Commitment 3 - To assess the carbon intensity of all assets (using estimates if necessary) by the end-of the 2022/23 reporting cycle.

The Fund will work with Managers and General Partners towards measuring carbon levels across all assets by 2022/23 reporting cycle.

Other RI Partner Organisations

Local Authority Pension Funds Forum (LAPFF)

LPFF is an umbrella organisation representing the interests of around 85 Local Government Pension Funds with assets of over £350 billion and exists to promote the highest standards of corporate governance and responsibility.

Membership of LAPFF is seen as a highly effective way of collaborating on ESG matters. Recent LAPFF campaigns to change corporate behaviour have included executive pay, human rights impacted by mining operations, plastics pollution, gender equality, climate change / fossil fuel emissions and reliable company accounting.

Prevalent in 2021/22 has been LAPFF's work with mining companies Anglo American, Glencore, Vale, BHP and Rio Tinto being advocates for the rights of indigenous communities, championing "say on climate votes" and the phase out of thermal coal.

Engagement is invariably at a personal level between LAPFF office bearers and company chairs or senior executives. LAPFF has been vocal in encouraging AGMs to again be in person so that shareowners have the chance to question Boards.

LAPFF business meetings are held on a quarterly basis and the Chair issues a weekly update to ensure LAPFF members are fully briefed on developments. LAPFF also issues "Alerts" where voting in a particular direction is recommended.

Voting

Shareholder voting is a key tool in the Fund's armoury as a responsible investor. For the past year until December 2021, Pensions and Investment Research Consultants Ltd (PIRC) carried out voting on behalf of the Fund and provided advice and research on a range of matters pertaining to corporate governance. Following the previously mentioned procurement exercise, Hermes EOS were appointed to provide voting and engagement services from Q1 2022.

Hermes EOS attended the Committee and Board Meeting on 17 March 2022 to outline their approach to stewardship. During 2021/22, PIRC/Hermes EOS voted on 1,349 resolutions with 1,001 votes being cast in favour of resolutions, 402 opposed, 117 being mainly abstentions and 26 falling into other votes category.

The votes covered areas such as the election of directors and remuneration policy, annual reports, dividends, share issue/re-purchase. Areas where votes against Boards were regularly cast included climate change, executive remuneration, share buybacks and auditor independence.

An example of votes cast by the Fund were as follows:

Company	AGM Date	Subject of Resolution	Vote
Barclays	05/05/2021	Shareholder Resolution: Disclose Climate Change Action Plan and Report Annually on Progresses	For
Shell	18/05/2021	Approve the Shell Energy Transition Strategy	Against
Shell	18/05/2021	Shareholder Resolution: Setting Climate Change Targets	For
Marks & Spencer	06/07/2021	Authorise Share Repurchase	Against
Diageo	30/09/2021	Approve the Remuneration Report	Against

BHP	14/10/2021	Approve Company Climate Transition Action Plan	Against
Microsoft	30/11/2021	Shareholder Resolution: Report on Effectiveness of Workplace Sexual Harassment Policies	For

Litigations

The Fund is participating in a legal action (“a Class Action”) with a large number of other investors against BHP Billiton in relation to the collapse of the Samarco dam in Brazil in 2015 which killed 19 people and caused environmental upheaval. It is contended that from 2013, BHP knew that there was a material risk the dam would collapse. As a result, it is alleged that they breached disclosure obligations and misled the market. The case is being heard in Australia and is ongoing.

Risk Management

Overview
Risk is an inherent feature of pension fund management. This may be risk in entrusting fund monies to an investment manager, a systems failure or, indeed, a global pandemic.

The Fund integrates risk management into its governance process by having a Risk Management Policy which explains the risk management strategy for the Fund, including:

- risk philosophy
- implementation process
- roles and responsibilities
- key internal controls

The policy seeks to ensure that the Fund:

- integrates risk management into its culture and day-to-day activities
- has a robust framework for the identification, analysis, assessment and management of risk
- minimises the probability of negative outcomes for the Fund and its stakeholders

Risk Identification, Management and Review

The Fund has adopted the following “virtuous circle” for identifying, managing and reviewing risk:

Risks are identified through a variety of means, including:

- performance measurement against agreed objectives
- feedback from employers and other stakeholders
- liaison with other organisations, national associations, professional groups, etc.
- soundings from the Pensions Committee, Pension Board and Fund Advisers

- knowledge, observations and experiences of Officers
- findings of internal and external audit

Risks are allocated a risk score depending on their impact and likelihood of occurrence. Depending on the score, risks are classified as being:

Level of Risk	Consequences
Low	Fund considers this level of risk tolerable
Medium	Fund expects this level of risk to be contained with minimal intervention
High	Fund is concerned about this type of risk and looks to manage it through mitigation and action plans
Very High	Fund is very concerned with this type of risk and looks to eliminate or contain it through a combination of contingencies, mitigations and short-term action plans

Risks are documented in the Fund's risk register, together with the actions put in place to mitigate the risk. Management of each risk is allocated to a senior Fund officer or officers.

In relation to any heightened areas of risk or newly identified risks, the Pensions Committee and Pension Board are updated as required (e.g. the risk of being ready to onboard to the Pensions Dashboard was added in February 2022). Additionally, the register is reviewed by senior officers twice yearly at meetings attended by the Board Chairs. Once reviewed, the register is taken to the Pensions Committee for formal approval. Changes to the current risk register were formally approved at the meeting on the 17 March 2022.

During 2019/20, the Pensions Committee approved the introduction of an Assurance Map (as endorsed by the Chartered Institute of Internal Auditors) to systematically categorise risk controls and to provide reassurance that key risk mitigations were being visited appropriately through the audit programme. More information on this can be found in the Annual Governance Statement.

The risk management process is supported by the following strategic documents:

- the Fund Business Continuity Document
- the Council (Finance) - Business Continuity Recovery Plan
- the Council Corporate Risk Management Policy and Framework

Collectively, the documents deal with the Fund's planned responses to any unexpected interruption to service delivery and the wider risk environment in which the Fund operates as part of Falkirk Council.

The risk management process is intended to be consistent with the Managing Risk recommendations outlined in the Pension Regulator's Code of Practice 14.

Key Risks and Mitigations

The areas of greatest risk and the main mitigations put in place by the Fund are as follows (NB per risk register as at 31 March 2022):

Identified Risk (classified as Very High)	Responsible Officers	Mitigating Actions	Risk Rating Post Mitigation
Funding position and ability to pay benefits affected by falling asset values	Chief Finance Officer Pensions Manager	• Diverse range of assets held • Strategy overseen by Joint Investment Strategy Panel (JISP) • Allocation to income generating assets property, infrastructure and private debt • Long-term time horizon with no immediate pressure to realise assets • Periodic reviews of investment strategy	Medium
Managers under-perform or performance monitoring is ineffective	Chief Finance Officer Pensions Manager	• Reviews performed by JISP and Lothian's investment team including FCA accredited professionals • Strategic asset allocation to reduce risk • Asset and manager diversification • Quarterly calls with managers • Committee/Board and manager reporting cycle • Robust manager selection process • Option to terminate managers contract for poor performance	Medium
Asset valuations adversely affected by the impact of climate change	Chief Finance Officer Pensions Manager	• Engagement with investee companies by Fund managers • Members of LAPFF, IIGCC, Scottish Responsible Investment Group and Climate Action 100+ • ESG themed mandate being funded • Carbon foot-printing exercise • Adoption of Statement of Responsible Investment Principles • Exercising voting rights and support for climate change	High

		resolutions at AGMs e.g. Barclays and BP	
Lack of knowledge, skills and leadership amongst Committee, Board and Officers	Chief Finance Officer Pensions Manager	• Training Policy in place • Attendance at conferences or webinars • Access to wide variety of advice • Experienced officers	High
Succession planning inadequate	Chief Finance Officer Pensions Manager	• Staff training and development policies • Delegation to officers and advice from JISP • Reduce key man risk through rotation of duties • Staff access to group and web based forums • Collaborations with Lothian and Fife • Consideration of merger to lessen risk	High
Failure to issue all benefit statements by due date	Pensions Manager Pensions Officers	• Fund has regular contact with employers • Employer training sessions held as required • Employer reminders sent before/after year end • i-Connect project ongoing with all bar 5 employers moved to monthly data collection • Pension administration strategy to be implemented	High
Failure to adhere to regulatory standards (TPR) for admin and governance	Pensions Manager Pensions Officers	• Receipt and review of industry publications • Access to specialist scheme wide advisers (LGA) • Review of results of TPR “deep dives – focus on policies, processes and people” • Scheme return completed annually and participate in TPR surveys • Rolling data improvement plan • Consideration of merger to lessen risk • Pension administration strategy to be implemented	High

Failure of IT systems including Altair (key admin/payroll system)	Pensions Manager Pensions Officers	• Altair is a hosted, industry standard system • Altair contingency arrangements tested annually • Data backed-up daily by FC ICT and Heywood • Council is reviewing Business Continuity arrangements for wider scenarios than COVID • Most applications used are web based • Pensions staff equipped with laptops	Medium
Cyber security attack	Chief Finance Officer Pensions Manager	• Heywood have provided certificates for compliance with ▪ Cyber Essentials Scheme (expire 10/9/22) ▪ ISO 27001:2013 (expires 19/12/23) ▪ ISO 9001:2015 (expires 19/12/23) ▪ IOS 14001:2015 (expires 30/11/23) • Heywood moved to Cloud hosting • Heywood provide a summary of their annual penetration testing and cyber security reviews • Falkirk Council has attained Cyber Essentials certification and PSN Certification • Regular staff reminders re data security	High
Failure to be data ready and able to supply required data for proposed Pensions Dashboard onboarding planned for 2023)	Pensions Manager and Pensions Officers	• Pension administration system provider is developing a data transfer system • Data cleansing tools available and used • Data quality audit undertaken • Data review and improvement plan put in place	High
Inaccurate member data on Altair or incomplete member data	Pensions Manager	• Online data submissions directly from employer • Employer training sessions • Year end queries followed up with employers and made aware of any themes	High

due to employer omissions		• Data cleansing tools available and used • Data quality audit undertaken • Data review and improvement plan put in place • Employer forms revised to improve clarity • Trained staff review of records • Address tracing undertaken periodically • Use of Tell Us Once (TUO) to notify of deaths	
Staff error or backlogs in service delivery	Pensions Manager Pensions Officers	• Experienced core workforce • Additional staff recruited • Industry standard pensions admin system • Transactions subject to checking mechanism • Robust staff selection procedures • Online procedures manual • Annual staff training • Outstanding caseload monitored	High
Adverse impact on business as usual and member experience as a result of disruption due to plans to consider a merger.	Chief Finance Officer and Pensions Manager	• Levelling up merger activity will improve resilience and member experience reduce • Consultants engaged to assess the case for merger • Business case produced by Consultants and costed merger proposal agreed by Board and Committee • Detailed project plan "Forth" in place	Medium

Data Security and Cyber Risk

The Fund is responsible for a large volume of personal highly sensitive data. The Fund operates within the context of Falkirk Council's wider information security arrangements. These are set out in the Council's Information Security Policy which has a general objective of complying with the BS7799-2 Code of Practice for Information Systems Security. In particular, the Council is compliant with the Public Services Network and Cyber Security Essentials accreditation regimes.

At the Pensions Team level, the following arrangements are in place to safeguard data:

- Staff are trained regularly on their obligations in respect of confidentiality, data protection and information security
- New staff have these responsibilities and policies explained to them as part of their induction and their understanding is checked

- Where data has to be transferred off site we use either secure FTP, VPN, or Sharefile - a secure file exchange application
- Data classed as sensitive personal data transferred on site is password protected
- Paper records are securely destroyed
- Password protected laptops are provided to staff who work away from the office, as part of their regular role or as part of the business continuity plan
- The Pensions Administration System complies with the standards contained in ISO/IEC 27001 information security management
- Data Processing Agreements are in place with third party processors (e.g. the Fund Actuary and the vendor of the administration software)
- A data sharing agreement is in place with the pensions authority that maintains the LGPS National Insurance database.

The requirements of the General Data Protection Regulations which came into force on 25 May 2018 mean that the Fund has published a comprehensive Privacy Notice to explain, inter alia, why the Pensions Team collects personal data, with whom they share data and the length of time for which that data is retained.

The Fund has entered into a Memorandum of Understanding with each of the Fund's constituent employers to ensure that they are aware of the data security standards that is expected of them and that they are aware of the standards they can expect from the Fund.

Investment Risk

Investment risks include price volatility risk, currency risk, counterparty risk, interest rate risk and inflation risk. A more detailed explanation of these risks can be found in the Fund's Statement of Investment Principles (see Appendix 3).

The Fund's overall investment policy is to seek to reduce its exposure to more volatile riskier asset classes as market opportunities arise (e.g. bond yields rise and liabilities fall). This is consistent with Fund commitments to allocate capital to asset classes such as Infrastructure and senior Private Debt.

Clearly, giving third party investment managers the right to transact on behalf of the Fund carries a major risk. To gain assurance that managers are exercising responsible stewardship of the assets under management, the Fund and its advisers have regular calls and meetings with the managers; discuss manager performance with Fund advisers and seek from managers their audited compliance and control reports. Further assurance comes from the individual manager/administrator internal controls reports where available, details of which (for 2021/22) are on the next page:

Fund manager/administrator	Type of report	Assurance obtained	Service Auditors
Abrdn	AAF 01/06/ISAE3402	Reasonable assurance	KPMG LLP
Alcentra/Sanne	ISAE 3402	Reasonable assurance	KPMG LLP

Alinda/Apex Group Ltd	ISAE 3402	Reasonable assurance	Deloitte
Ancala/IQ-EQ	ISAE 3402	Reasonable assurance	BDO LLP
Baillie Gifford	ISAE 3402/AAF 01/06	Reasonable assurance	PWC LLP
Barings	SOC 1	Reasonable assurance	Grant Thornton
Blackrock/State Street	SOC 1	Reasonable assurance	EY LLP
Blackrock/BNP Paribas	ISAE3402	Reasonable assurance	PWC LLP
Brookfield/SS&C GlobeOp	SOC 1	Reasonable assurance	PWC LLP
Crestbridge Ltd	ISAE3402	Reasonable assurance	PWC LLP
Dalmore Capital	ISAE 3402	Reasonableas surance	PWC LLP
GCM/SEI Investments	SOC 1	Reasonable assurance	EY LLP
Global Infrastructure Partners/JP Morgan	ISAE 3402	Reasonable assurance	PWC LLP
Hermes	AAF 01/06	Reasonable assurance	EY LLP
L&G/JTC (Jersey) Ltd	ISAE3402	Reasonable assurance	PWC LLP
Legal & General	AAF 01/06/ISAE3402	Reasonable assurance	KPMG LLP
Madison Capital/ J.P. Morgan	SOC1	Reasonable assurance	PWC LLP
Newton Investment Management	ISAE3402/SSA E18	Reasonable assurance	KPMG LLP
Oaktree Capital Management LP	attestation standards established by the American Institute of Certified Public Accountants	Reasonable assurance	EY LLP
Pictet Asset Management Limited	ISAE3402	Reasonable assurance	PWC LLP
Schroder Investment Management	ISAE 3402/AAF 01/06	Reasonable assurance	EY LLP
Nuveen/Equitix/Aztec Group	ISAE 3042	Reasonable assurance	KPMG LLP
UBS (Greensands)	ISAE 3402	Reasonable assurance	EY LLP
Resonance British Wind/TMF Group	ISAE 3042	Reasonable assurance	EY LLP

Statements of Responsibilities

Administering Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of the financial affairs of the Falkirk Council Pension Fund and to secure that one of its officers has responsibility for the administration of those affairs. In Falkirk Council, that officer is the Chief Finance Officer
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Annual Accounts for signature

I confirm that these Annual Accounts were approved for signature by the Falkirk Council Pension Fund Committee at its meeting on 22 September 2022.

Lorna C Binnie

Councillor Lorna Binnie
Chair of the Pensions Committee

Chief Finance Officer Responsibilities

The Chief Finance Officer is responsible for the:

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

In preparing the Annual Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with legislation and the Local Authority Accounting Code (in so far as it is compatible with legislation)

The Chief Finance Officer has also:

- kept adequate accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

Certificate by the Chief Finance Officer

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2022 and the transactions of the Pension Fund for year ended 31 March 2022.

A Templeman

Amanda Templeman, CPFA
Chief Finance Officer (Falkirk Council)
22 September 2022

Independent Auditor's Report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Falkirk Council Pension Fund (the fund) for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the fund during the year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is six years. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Independent Auditor's Report (continued)

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, we report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Chief Finance Officer and Falkirk Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Falkirk Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;
- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

Independent Auditor's Report (continued)

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on other requirements

Statutory other information

The Chief Finance Officer is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and our auditor's report thereon.

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the statutory other information and we do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;

Independent Auditor's Report (continued)

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Hassan Rohimun,

for and on behalf of Ernst & Young LLP, Appointed Auditor

2 St Peter's Square, Manchester M2 3DF

Date: 23rd September 2022

Pension Fund Account

This statement shows the summary of income and expenditure of the Pension Fund and separates those transactions which are related to dealings with members from those transactions which are a consequence of investment.

Dealings with members, employers and others directly involved in the fund	**2020/21 in '000**	**2021/22 in '000**	**Note**
Contributions	(96,151)	(102,145)	7
Transfers in from other pension funds	(2,407)	(3,670)	8
	(98,558)	**(105,815)**	
Benefits	79.483	84,176	9
Payments to and on account of leavers	13,370	6,181	10
	92,853	**90,357**	
Net (additions)/withdrawals from dealings with members	**(5,705)**	**(15,458)**	
Management expenses	19,143	19,011	11
Net (additions)/withdrawals including fund management expenses	**13,438**	**3,553**	
Return on Investment			
Investment income	**(37,232)**	**(56,964)**	12
Taxes on income	**1,007**	**1,692**	
Profit and losses on disposal of investments and changes in market value of investments	**(490,154)**	**(310,010)**	14a
Net return on investments	**(526,379)**	**(365,282)**	
Net (increase)/decrease in the net assets available for benefits during the year	**(512,941)**	**(361,729)**	
Opening net assets of the scheme	**2,328,911**	**2,841,852**	
Closing net assets of the scheme	**2,841,852**	**3,203,581**	

Pension Fund Net Asset Statement

This statement discloses the size and type of the net assets of the Fund at the end of the financial year.

	2020/21 in ‘000	2021/22 in ‘000	Note
Investment assets	2,845,137	3,189,779	14
Investment liabilities	(12,197)	(600)	14
Total net investments	**2,832,940**	**3,189,179**	
Long-term assets	66	44	20a
Current assets	11,717	16,810	20
Current liabilities	(2,871)	(2,452)	21
Net Assets of the fund available to fund benefits at the period end	**2,841,852**	**3,203,581**	

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

The unaudited accounts were issued on 30 June 2022 and the audited accounts were authorised for issue on the 22 September 2022. The Statements of Accounts present a true and fair view of the financial position of the Pension Fund as at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Amanda Templeman, CPFA
Chief Finance Officer (Falkirk Council)
22 September 2022

Notes to the Accounts

1. Fund and Scheme Overview

As part of its statutory obligations, Falkirk Council is required to operate the terms of the Local Government Pension Scheme (LGPS), including the maintenance and administration of a pension fund.

The LGPS is a public service pension scheme which provides defined benefits on a career average basis (NB benefits built up before 1 April 2015 are provided on a final salary basis). The Scheme falls under the regulatory framework of the Public Service Pensions Act 2013. The Scheme is also registered with HM Revenue and Customs as a UK approved pension scheme and was formerly contracted-out of the State Second Pension.

The Scheme's rules are made by the Scottish Ministers through the office of the Scottish Public Pensions Agency and are set out primarily in the following statutory instruments:

- the Local Government Pension Scheme (Scotland) Regulations 2018
- the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
- the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010

The regulations are supplemented by guidance from the Scottish Ministers and the Government Actuary's Department. Best practice guidance is provided by the Pensions Regulator.

Administration of the Falkirk Council Pension Fund is undertaken by an in-house team who oversee the Fund's investments and the benefits of its scheme members. This includes the contributors, deferred and pensioner members of Clackmannanshire, Falkirk, and Stirling Councils, as well as around 21 other employers. Teachers (who are also local authority employees) do not come within the scope of the LGPS as they have their own national pension arrangement. A full list of employers who participate in the Falkirk Council Pension Fund is included in this report in Appendix 2.

Membership

Membership of the LGPS is voluntary. However, employees are automatically enrolled into the Scheme either as a result of automatic enrolment legislation or by virtue of the Scheme's own contractual enrolment provisions. Employees are free to choose whether to remain in the Scheme or, having opted out, join it at a later date.

Organisations participating in the Scheme fall into two categories:

Scheduled Bodies - organisations such as local authorities that are statutorily required to offer the Scheme to their employees
Admission Bodies - mainly charitable, non-profit making bodies that have reached an agreement with an Administering Authority to participate in the Scheme

Full details of membership numbers are contained on page 37 of the Annual Report.

Benefits
Before 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2015, the scheme became a career average scheme and members build up a pension that is based on 1/49th of their pensionable pay in that year. The pension that is built up is then revalued each year in line with the Consumer Prices Index.

The Scheme's benefits are summarised in the table below:

	Service before 1 April 2009	**Service after 31 March 2009**	**Service after 31 March 2015**
Pension	Each year worked is worth 1/80th x final pensionable salary	Each year worked is worth 1/60th x final pensionable salary	Each year worked is worth 1/49th of pensionable earnings
Lump Sum	Automatic lump sum of 3 x annual pension In addition, part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 of pension surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 of pension surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 of pension surrendered.

Where the lump sum is greater than the maximum tax free lump sum permitted by HM Revenue and Customs (25% of the capital value of the Scheme benefits), a tax charge will apply.

Additionally, the Scheme provides a range of guaranteed inflation linked benefits including early payment of pension, lump sum on ill health or redundancy grounds and death and survivor benefits.

More information about scheme benefits can be found in the Members' Guide located on the Fund website at www.falkirkpensionfund.org.

Funding
Benefits are funded by contributions and returns on investments. Contributions are made by contributor members of the Fund in accordance with the Local Government Pensions Scheme (Scotland) Regulations 2018. The rate of employee contribution varies depending on a member's annual pensionable pay with designated pay bands attracting rates of between 5.5% and 12%.

Employer contributions are based on the results of a three yearly actuarial funding valuation. The last completed valuation was as at 31 March 2020, which set the rates for the 3 years from 2021/22 to 2023/24. For the majority of employers, contribution rates were in a range of 20.5% – 30.3% of pensionable pay. A copy of the 2020 valuation report can be found on the Fund website. The next valuation is scheduled at 31 March 2023.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year end as at 31 March 2022.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The code requires the disclosure of information relating to the impact of an accounting change that will be required by new standards that have been issued but not yet adopted.

The standards introduced by 2022-23 Code are:
- IFRS16 lease (but only for local authorities that have decided to adopt IFRS 16 in the year 2022-23)
- Annual improvements to IFRS Standards 2018-20 dealing with:
  - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
  - IAS 37 (Onerous contracts) – clarifies the intention of the standard
  - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
  - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances

None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. During the consultation process on the 2022/23 Code CIPFA/LASAAC did not envisage them having a significant effect on local authority financial statements.

The accounts report on the net assets available to pay pension benefits. They do not take account of the obligation to pay pensions and benefits which fall due after the end of financial year, nor do they take account of the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement or in the notes to the accounts by appending an actuarial report for this purpose. The Fund has opted to disclose this information in Note 19.

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Fund will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue; this being at least 18 months from the approval of these financial statements at 22 September 2022.

The financial statements are prepared in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which outlines that as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Fund is established under secondary legislation made under the terms of the Public Service Pensions Act 2013 and is therefore expected to be a going concern until notification is given that the body will be dissolved and its functions transferred. At the date of approval of the financial statements there is no indication of any such notification however Falkirk Pension Fund and Lothian Pension Fund have announced that the possibility of a merger of operations is being explored. Work to undertake due diligence is in progress and any merger would be subject to approval by the City of Edinburgh and Falkirk councils, regulatory clearances and legislative processes.

The Fund has carried out an assessment of its going concern. This included consideration of the following:

- Financial performance and position at 31 March 2022
- Update on asset position post year end
- Expected impact of forecasted cash flow on costs and expenditure through management costs and benefits payable for 18 months from the financial statements' approval at 22 September 2022
- Readily available funds at 31 March 2022 and post year-end.

At 31 March 2022, the Fund was holding £87.4 million in in-house managed cash (£78.9million in deposits and £8.5million in its current account) whereas it's average monthly outgoings are £10 million. The Fund forecasts throughout the going concern assessment to have small shortfall of £3.4m at 31/03/2024 which can be covered from exiting cash deposits. In the unlikely event that the Fund needed to raise cash, it holds £2.5 billion in what are liquid investments in the form of equities, gilts and TIPS. These are generally realisable within 3-4 days of trade execution. Therefore, despite the ongoing economic uncertainties around the war in Ukraine, inflation and recovery from Covid-19, the Fund remains in a strong position with a healthy funding level, liquid assets that are readily convertible to cash and healthy cash level in the bank. The Fund has considered its financial position at year end and has concluded the Fund is well placed to continue to manage its business and financial risks successfully. As a result, the financial statements are appropriately prepared on a going concern basis.

3. Summary of Significant Accounting Policies

Fund Account - revenue recognition

a) Contribution income

Normal contributions are accounted for on an accrual basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all employees which rise according to pensionable pay
- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate included in the actuarial valuation report. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Note 8.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

- Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
- Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.
- Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account - expense items

d) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets statement as current liabilities, providing that payment has been approved.

e) Taxation

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

f) Management Expenses

The Fund discloses fund management expenses in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management Expenses (2016)”, as shown below. All items of expenditure are charged to the Fund on accrual basis as follows:

- **Administrative Expenses**
  All staff costs of the Pensions Administration Team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- **Oversight and Governance Costs**
  All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- **Investment Management Expenses**
  Investment fees are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in value of investments.

  Fees charged by external investment managers and custodians are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in "Practical Guidance on Investment Disclosures" (PRAG/Investments Association, 2016) (see Note 15).

h) Freehold and leasehold properties

The Fund's directly owned property was valued at 31 March 2022 by independent external valuers on the fair value basis and in accordance with the latest edition of the RICS Valuation - Professional Standards (Red Book), see Note 15 for more details.

i) Foreign currency transactions and balances

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

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

k) Financial liabilities

A financial liability is recognised in the Net Assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as the reporting date, and any gains and losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Fund Account as part of change in value of investments.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statements (see Note 19).

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVCs) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2010 but are disclosed for information in Note 22.

n) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event takes place before the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 24 and Note 25).

3. Critical Judgement in Applying Accounting Policies

Pension Fund Liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted industry guidelines.

The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund’s most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term return.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends, and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the Net Asset statement for which there is a significant risk of adjustment the following year are as follow:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: -a 0.1% p.a. increase in the pension increase rate would increase liabilities by £70m -a 0.1% increase in salary increase rate would increase liabilities by £9m -0.1% decrease in the real discount rate would increase future liabilities by £79m.
Directly held property (Note 15)	Valuation techniques are used to determine the carrying values of directly held property. Where possible these valuation techniques are based on observable data, otherwise the best available data is used	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments by up to 13% i.e. an increase or decrease of £377k on carrying values of £2.9m.
Private Equity Infrastructure/Private Debt (Note 15)	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (December 2018). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity, infrastructure, private debt investments are valued at £425m in the financial statements. There is a risk that this investment may be under- or overstated in the accounts by up to 26% depending on asset class, i.e. an increase or decrease of £55m. Details for each category are shown in the Note 15.

6. Events after the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where the category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of the accounts.

The Fund has received updated Private Equity/Infrastructure/Private Debt statements for 31 March 2022 after preparing the accounts. The variance between the valuation included in the accounts and the updated statements amounts to £19.2m (£12.2m at 31 March 2021). The amount is not material and therefore no adjustment has been made in the Net Asset Statement.

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 30 June 2022 and the audited Statement of Accounts was authorised for issue on 22 September 2022. Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

7. Contributions Receivable

By Category	**2020/21**	**2021/22**
	£'000	**£'000**
Employees' contributions	20,632	**21,757**
Employers' contributions	72,456	**79,360**
Employers' deficit recovery contributions	3,063	**1,028**
Total	96,151	**102,145**

By type of Employer	**2020/21**	**2021/22**
	£'000	**£'000**
Administering authority	32,927	**35,453**
Other scheduled bodies	53,480	**56,674**
Admitted bodies	9,744	**10,018**
Total	96,151	**102,145**

8. Transfers from Other Pension Funds

All transfers during the year related to individual transfer payments and not to bulk transfer payments.

	2020/21	2021/22
	£'000	**£'000**
Individual transfers	2,407	**3,670**

9. Benefits Payable

By Category	**2020/21**	**2021/22**
	£'000	**£'000**
Pensions	63,011	**64,990**
Commutation and lump sum retirement benefits	14,123	**16,527**
Lump sum death benefits	2,349	**2,659**
Total	79,483	**84,176**

By type of Employer	**2020/21**	**2021/22**
	£'000	**£'000**
Administering authority	26,907	**30,335**
Other scheduled bodies	45,607	**48,102**
Admitted bodies	6,969	**5,739**
Total	79,483	**84,176**

10. Payments to and on Account of Leavers

By Category	**2020/21**	**2021/22**
	£'000	**£'000**
Refunds to members leaving service	172	**169**
Individual transfers	4,954	**5,683**
Group transfers	8,244	**329**
Total	13,370	**6,181**

11. Management Expenses

By Category	**2020/21**	**2021/22**
	£'000	**£'000**
Administrative costs	960	**984**
Investment management expenses	17,148	**16,914**
Oversight and governance costs	1,035	**1,014**
Project Forth	-	**99**
Total	19,143	**19,011**

11a. Investment Management Expenses

2021/22	**Total**	**Management fees***	**Performance related fees**	**Transaction costs**
Bonds	**24**	24	-	-
Equities	**3,095**	2,498	-	597
Pooled Investments	**5,773**	3,525	-	2,248
Managed Property Funds	**1,734**	1,575	145	14
Private Equity	**895**	446	449	-
Infrastructure	**4,778**	3,052	1,726	-
Private Debt	**524**	436	88	-
		11,556	**2,408**	**2,859**
Custodian Fees	**81**			
Other	**10**			
	16,914			

* Management fees include investment management expenses and fees deducted directly from capital.

2020/21	**Total**	**Management fees***	**Performance related fees**	**Transaction costs**
Bonds	**7**	7	-	-
Equities	**3,167**	2,543	-	624
Pooled Investments	**5,101**	2,877	-	2,224
Managed Property Funds	**1,875**	1,807	68	-
Private Equity	**1,594**	520	1,074	-
Infrastructure	**4,732**	2,731	1,996	5
Private Debt	**575**	368	207	-
		10,853	**3,345**	**2,853**
Custodian Fees	**86**			
Other	**11**			
	17,148			

* Management fees include investment management expenses and fees deducted directly from capital.

In addition to the fees disclosed in this note, the Fund also incurred indirect management fees resulting from investments in fund of funds structures. The estimated value of these fees in 2021/22 is £2.6 m (£1.8m in 2020/21). The increase in fees was mainly attributable to fund of funds Infrastructure mandate.

Disclosed transaction costs are directly attributable to the acquisition, issue or disposal of financial assets or liabilities. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties.

12. Investment Income

By Category	2020/21	2021/22
	£'000	**£'000**
Income from equities	20,986	**32,197**
Private equity income	57	**368**
Income from bonds	191	**254**
Pooled property investments	4,114	**5,282**
Directly owned property	235	**211**
Infrastructure	8,582	**13,801**
Private debt	2,948	**4,714**
Affordable housing	-	**124**
Cash and other income	119	**13**
Total before tax	37,232	**56,964**

13. Other Fund Account Disclosures

13a. External Audit Costs

	2020/21	2021/22
	£'000	**£'000**
Payable in respect of external audit	32	**30**

14. Investments

Investment Assets	2020/21	2021/22
	£'000	**£'000**
Bonds	43,530	**190,089**
Equities	785,601	**784,466**
Pooled investments		
Equities	963,048	**1,140,596**
Fixed income	177,788	**169,571**
Diversified growth	261,136	**123,666**
Affordable housing	23,087	**23,336**
Other Investments		
Managed property funds	152,779	**193,068**
Directly owned property	2,500	**2,900**
Private equity	41,337	**38,446**
Infrastructure	249,953	**321,300**
Private debt	63,723	**65,752**
Cash deposits	75,445	**130,081**
Investment income due	4,514	**6,508**
Amounts receivable for sales	696	**-**
Total Investments Assets	2,845,137	**3,189,779**
Investments Liabilities		
Amounts payable for purchases	(12,197)	**(600)**
Total Investment Liabilities	(12,197)	**(600)**

Net Investment Assets	2,832,940	**3,189,179**

14a. Reconciliation of Movements in Investments and Derivatives

Period	Market value 01/04/2021	Purchases at cost	Sales proceeds	Change in market value	Market value 31/03/2022
Investment Assets					
Bonds	43,530	154,823	-	(8,264)	**190,089**
Equities	785,601	219,256	(313,469)	93,078	**784,466**
Pooled investments	1,425,059	100,000	(214,798)	146,908	**1,457,169**
Managed property funds	152,779	10,776	(2,847)	32,360	**193,068**
Directly owned property	2,500	-	-	400	**2,900**
Private equity	41,337	755	(16,489)	12,843	**38,446**
Infrastructure	249,953	78,214	(35,781)	28,914	**321,300**
Private debt	63,723	5,064	(3,982)	947	**65,752**
	2,764,482	**568,888**	**(587,366)**	**307,186**	**3,053,190**
Cash deposits	75,445	2,945	(1,070)	2,824	**130,081**
Amounts receivable for sale	696				**-**
Investment income due	4,514				**6,508**
Payable for purchases	(12,197)				**(600)**
Net investment assets	**2,832,940**			**310,010**	**3,189,179**

Period	Market value 01/04/2020	Purchases at cost	Sales proceeds	Change in market value	Market value 31/03/2021
Investment Assets					
Bonds	42,230	10,480	(7,824)	(1,356)	**43,530**
Equities	595,158	249,689	(282,974)	223,728	**785,601**
Pooled investments	1,096,030	70,000	(9,015)	268,044	**1,425,059**

Managed property funds	138,587	13,601	(1,960)	2,551	**152,779**
Directly owned property	2,600	-	-	(100)	**2,500**
Private equity	51,902	2,499	(10,747)	(2,317)	**41,337**
Infrastructure	236,489	45,255	(35,215)	3,424	**249,953**
Private debt	45,188	20,357	(491)	(1,331)	**63,723**
Derivatives					
• Options	-	648	(749)	101	**-**
• Forward currency contracts	518	1,174	(560)	(1,132)	**-**
	2,208,702	**413,703**	**(349,535)**	**491,612**	**2,764,482**
Cash deposits	103,031	49	(1,061)	(1,458)	**75,445**
Amounts receivable for sale	2,357				**696**
Investment income due	3,904				**4,514**
Payable for purchases	(1,200)				**(12,197)**
Net investment assets	**2,316,794**			**490,154**	**2,832,940**

14b. Investments Analysed by Fund Manager

	2020/21	2020/21	2021/22	2021/22
	£'000	%	£'000	%
L&G Investment Management Ltd	964,548	34.0	**1,043,762**	**32.7**
Schroder Investment Management Ltd	378,458	13.4	**452,842**	**14.2**
Newton Investment Management Ltd	497,932	17.6	**445,504**	**14.0**
Baillie Gifford & Co Ltd	419,345	14.8	**274,683**	**8.6**
LPFI Ltd	39,886	1.4	**190,906**	**6.0**
Pictet Asset Management	52,394	1.8	**159,972**	**5.0**
Dalmore Capital	68,663	2.4	**90,764**	**2.8**
Grosvenor Capital	53,952	1.9	**55,595**	**1.7**
Equitix Investment Management	32,200	1.1	**50,115**	**1.6**
Blackrock	41,117	1.5	**43,519**	**1.4**
Wilshire Private Markets Group	22,564	0.8	**25,715**	**0.8**
Innisfree	13,623	0.5	**24,383**	**0.8**
Abrdn	27,829	1.0	**23,967**	**0.8**
Hearthstone	23,087	0.8	**23,336**	**0.7**
Global Infrastructure Partners	9,297	0.3	**20,702**	**0.6**
Ancala Partners	18,937	0.7	**19,590**	**0.6**
Madison Capital Funding	18,037	0.6	**19,073**	**0.6**

Hermes Investment Management	15,344	0.5	**17,938**	**0.6**
Barings	15,035	0.5	**17,552**	**0.6**
Alcentra	15,739	0.6	**16,516**	**0.5**
Astatine Investment Partners	10,896	0.4	**11,129**	**0.3**
Brookfield Global Funds	4,658	0.2	**11,930**	**0.4**
Greensphere	7,104	0.3	**10,177**	**0.3**
InfraRed Capital Partners Ltd	5,772	0.2	**6,195**	**0.2**
The Unite Group	-	-	**5,754**	**0.2**
Octopus Real Estate	-	-	**4,939**	**0.2**
Macquarie	2,957	0.1	**4,790**	**0.2**
KKR	6,626	0.2	**4,487**	**0.1**
Harbert Management Corporation	4,255	0.2	**4,142**	**0.1**
Gresham House	3,109	0.1	**3,018**	**0.1**
Resonance Wind	2,587	0.1	**2,751**	**0.1**
UBS/Greensands	3,736	0.1	**2,448**	**0.1**
Nuveen	1,427	0.1	**2,292**	**0.1**
Ardian	-	-	**1,533**	**-**
Crestbridge	1,095	0.0	**-**	**-**
Oaktree Capital	5,317	0.2	**-**	**-**
Directly Owned Property	2,500	0	**2,900**	**0.1**
In-House Cash	42,914	1.5	**94,259**	**3**
Total	2,832,940	100	**3,189,179**	**100**

The Fund holds the following investments in pooled funds, which are in excess of 5% of the value of the Fund.

	2020/21	**2020/21**	**2021/22**	**2021/22**
	£'000	%	**£'000**	**%**
STCB – Transition CSFU (GLOVE)	264,717	9.3	**314,570**	**9.9**
L&G UK Equity Index (OFC)	191,256	6.8	**181,667**	**5.7**
L&G N America Equity Index (OFC)	166,758	5.9	**169,716**	**5.3**
L&G RAFI Fundamental Global Reduced Carbon Pathway Eqy Idx	143,419	5.1	**164,358**	**5.2**
PICTET Global Envir OPPS Z GBP ACC	52,394	1.8	**159,972**	**5.0**
Baillie Gifford Diversified Growth	261,136	9.2	**-**	**-**

14c. Securities Lending

The Fund did not participate in any stock lending programmes.

14d. Property Holdings

The Fund's investment in its property portfolio comprises investments in pooled property funds and a number of directly owned properties at West Mains Industrial Estate, Falkirk, which are leased commercially to various tenants.

The future minimum lease payments receivable by the Fund in respect of West Mains Industrial Estate are as follows:

	2020/21	2021/22
	£'000	**£'000**
Within one year	169	**258**
Between one and five years	312	**562**
Later than five years	5	**1**
Total	**486**	**821**

15. Fair Value – Basis of Valuation

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 – where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted bonds and unit trusts.

Level 2 – where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The valuation basis for each category of investment asset is set out below:

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Level 1			
Quoted equities	The published bid market price on the final day of the accounting period	Not required	Not required
Cash and cash equivalents	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required

Amounts receivable from investment sales	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Investment debtors and creditors	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Level 2			
Gilts, TIPS (Treasury Inflation Protected Securities)	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled investments – equities, fixed income, and managed property funds	Closing bid price where bid and offer price are published Closing single price where single price published	NAV – based pricing set on a forward pricing basis	Not required
Level 3			
Directly held property / Affordable Housing	Valued at year end by external valuer DM Hall/Allsop in accordance with the Royal Institute of Chartered Surveyors' Red Book Global Valuation Standards (introduced with effect from 31 January 2020)	• Existing lease Terms • Nature of tenancies • Covenant strength • Vacancy levels • Estimated rental growth • Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Private Equity/ Infrastructure /Private Debt	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020)	• EBITDA multiple • Revenue multiple • Discount for lack of marketability • Control Premium	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Assessed valuation range (+/-)	Value at 31 March 2022	Potential change (+/-)	Value on increase	Value on decrease
	%	**£'000**	**£'000**	**%**	**£'000**
Infrastructure	12.0%	321,300	38,556	359,856	282,744
Private debt	10.5%	65,752	6,904	72,656	58,848
Private equity	26.0%	38,446	9,996	48,442	28,450
Affordable housing	13.0%	23,336	3,034	26,370	20,302
Directly held property	13.0%	2,900	377	3,277	2,523
		451,734	**58,867**	**510,601**	**392,867**

15a. Fair Value Hierarchy

The following table provides an analysis of the assets and liabilities of the Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2022	Quoted market prices Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Financial assets at fair value through profit and loss	**£'000**	**£'000**	**£'000**	**£'000**
Bonds		190,089		**190,089**
Equities	784,466			**784,466**
Pooled Investments		1,431,385	25,784	**1,457,169**
Managed Property Funds		193,068		**193,068**
Private Equity			38,446	**38,446**
Infrastructure			321,300	**321,300**
Private Debt			65,752	**65,752**
Cash deposits	130,081			**130,081**
Investment income due	6,508			**6,508**
Amounts receivable from sale	-			**-**

Net investments assets	**921,055**	**1,814,542**	**451,282**	**3,186,879**
Non-financial assets at fair value through profit and loss				
			2,900	**2,900**
Financial liabilities at fair value through profit and loss				
Payable for investment purchases	(600)			**(600)**
Total	**920,455**	**1,814,542**	**454,182**	**3,189,179**

15b. Reconciliation of fair value measurements within Level 3

	Infrastructure	**Private debt**	**Private equity**	**Affordable housing**	**Directly held property**	**Total**
	in'000	in'000	in'000	in'000	in'000	**in'000**
Value at 31 March 2021	249,953	63,723	41,337	23,087	2,500	**380,600**
Purchases	78,214	5,064	755	-	-	**84,033**
Sales	(35,781)	(3,982)	(16,489)	(720)	-	**(56,972)**
Unrealised gains and losses*	15,069	443	5,792	9,695	-	**30,999**
Realised gains and losses*	13,845	504	7,051	(8,726)	400	**13,075**
Value at 31 March 2022	**321,300**	**65,752**	**38,446**	**23,336**	**2,900**	**451,734**

* Unrealised and realised gains and losses are recognised in the changes in value of investments line of fund account

	Infrastructure	**Private debt**	**Private equity**	**Affordable housing**	**Directly held property**	**Total**
	in'000	in'000	in'000	in'000	in'000	**in'000**
Value at 31 March 2020	236,489	45,188	51,902	22,299	2,600	**358,477**
Purchases	45,255	20,357	2,499	-	-	**68,111**
Sales	(35,215)	(491)	(10,747)	(825)	-	**(47,278)**
Unrealised gains and losses*	(13,226)	(1,881)	(8,594)	1,613	(100)	**(22,188)**

Realised gains and losses*	16,650	550	6,278	-	-	**23,478**
Value at 31 March 2021	**249,953**	**63,723**	**41,337**	**23,087**	**2,500**	**380,600**

* Unrealised and realised gains and losses are recognised in the changes in value of investments line of fund account

16. Classification of Financial Instruments

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

		2020/21			**2021/22**	
	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
Financial Assets	in'000	in'000	in'000	in'000	in'000	in'000
Bonds	43,530			190,089		
Equities	785,601			784,466		
Pooled Investments	1,425,059			1,457,169		
Manged Property Funds	152,779			193,068		
Private Equity	41,337			38,446		
Infrastructure	249,953			321,300		
Private Debt	63,723			65,752		
Cash		78,914			130,081	
Other investment balances		5,210			6,508	
Debtors		8,166			16,854	
	2,761,982	**92,290**	**-**	**3,050,290**	**153,443**	**-**
Financial Liabilities						
Other investment balances	(12,197)			(600)		
Creditors			(2,723)			(2,452)
	2,749,785	**92,290**	**(2,723)**	**3,049,690**	**153,443**	**(2,452)**
Total		**2,839,352**			**3,200,681**	
Amounts not classified as financial instruments		**2,500**			**2,900**	
Total Net Assets		**2,841,852**			**3,203,581**	

17. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

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

Committee. Risk management policies are reviewed on an on-going basis to reflect changes in activity and in market condition.

Types of Investment Risk

Fluctuations in overall price can arise from a variety of sources including market risk, foreign exchange risk, interest rate risk and credit risk, liquidity and refinancing. Each of these vary in importance and will not by themselves account for the overall pricing risk faced. To some extent they may offset each other. The Fund's analysis combines these factors when looking at the total market price risk.

(i) Market Risk

Market risk is the risk of loss from fluctuations in equity and other asset prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy as it relates to investments is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on assets. Investment risk is considered further in the Fund's Statement of Investment Principles.

In general, excessive volatility in market risk is managed by engaging a range of Fund Managers with differing approaches and philosophies and also through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund's approach to managing risk can be described in two fundamental ways:

- by maintaining asset class exposures such that risk remains within tolerable levels
- by applying maximum exposures to individual investments

(ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is recognised by the Fund and its investment advisors. The Fund monitors the interest rate risk faced and will adjust its strategy in accordance with its Statement of Investment Principles. The Fund's direct exposure to interest rate movement as at 31 March 2022 is estimated to be around £544m (31 March 2021: £379.9m).

(iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than £GBP.

The Fund’s currency rate risk is recognised by the Fund and its investment advisors. In respect of cash deposits managed internally under the terms of the Cash Management Strategy, it is the Fund’s policy to convert all non-GBP monies to GBP at the end of a month to reduce the currency risk faced. In respect of cash held with external Fund Managers, it is left to their discretion as to whether they wish to hedge their currency position or not.

The Fund's currency exposure as at 31 March 2022 is estimated to be around £625m (31 March 2021: £608m).

(iv) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund’s assets and liabilities (as outlined in Market Risk above).

In essence, the Fund’s entire investment portfolio is exposed to some sort of credit risk. However, the selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The main area where risk is not reflected in a market price is cash deposits which at 31 March 2022 accounted for 4.1% of Fund assets (31 March 2021: 2.7%).

Held for investment purposes	Balance 31/03/2021 £’000	Moody’s Credit Rating	Balances 31/03/2022 £’000
Northern Trust Global Investment Limited – Liquidity Funds	60,134	Aa2	114,549
Aberdeen Standard Liquidity Fund (Lux) Sterling	5,000	AAA-mf	5,000
Northern Trust Company – Cash Deposits	586	Aa2	805
Santander UK PLC	4,560	A1	4,562

Bank of Scotland PLC	5,164	A1	5,166
Total investment cash	**75,444**		**130,082**
Held for other purposes			
Royal Bank of Scotland	3,469	A1	8,469
Total cash	**78,913**		**138,551**

As part of its approach to managing credit risk, the Fund has a Cash Management Policy which details:

- the counterparties with whom the Fund may have dealings
- the credit ratings that are deemed acceptable
- specific limits and conditions attaching to certain types of deposit

(v) Liquidity Risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council in its capacity as Administering Authority therefore ensures that the Pension Fund has adequate cash and liquid resources to meet its commitments.

A majority of the Fund's investment assets (estimated to be around 78.3%) could be converted into cash within three months in normal market conditions.

(vi) Refinancing Risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments. In any event, the Fund does not have any financial instruments that have a refinancing risk as part of its management and investment strategies.

Sensitivity Analysis

The Fund's valuation is sensitive to fluctuations in its asset prices. The level of these fluctuations is known as "volatility" and will differ between asset classes. By analysing historical data, it is possible to gain an indication of the likely volatility of certain asset classes. The following analysis, prepared by ISIO, the Fund's external adviser on sensitivity, predicts the likely annual volatility of the Fund's assets on an aggregated basis.

Asset type	Potential price movement (+ or -)
Equities developed markets	20.5%
Equities – Emerging Markets	28.0%
Private Equity	26.0%
Private Debt	10.5%
Commodities	30.0%
Property	13.0%

Infrastructure	12.0%
Corporate Bonds	7.5%
Diversified Credit	9.5%
Fixed Interest Gilts	8.8%
Index-Linked Gilts	11.5%
Overseas bonds	8.6%
Cash	1.0%

This sensitivity analysis incorporates volatility from market, interest rate, foreign exchange, credit and all other sources of risk, and more importantly, makes allowance for how these risks may offset each other.

Volatility is measured as the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time. Overall, the Fund benefits from "diversification" because it invests in numerous different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level.

Position as at 31 March 2022

Asset type	Asset value £'m	Asset weight	Volatility	Potential change +/- in £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	1,851.6	58.0%	20.5%	379.6	2,231.2	1,472.1
Equities – Emerging Markets	103.3	3.2%	28.0%	28.9	132.2	74.4
Private Equity	38.4	1.2%	26.0%	10.0	48.4	28.5
Private Debt	65.8	2.1%	10.5%	6.9	72.7	58.8
Commodities	5.2	0.2%	30.0%	1.6	6.8	3.6
Property – Balanced	229.9	7.2%	13.0%	29.9	259.8	200.0
Infrastructure	351.0	11.0%	12.0%	42.1	393.1	308.8
Corporate Bonds	63.7	2.0%	7.5%	4.8	68.5	58.9
Diversified Credit	36.0	1.1%	9.5%	3.4	39.4	32.6
Fixed Interest Gilts	49.8	1.6%	8.8%	4.4	54.2	45.5
Index-Linked Gilts	130.7	4.1%	11.5%	15.0	145.6	115.7
Overseas bonds	110.9	3.5%	8.6%	9.6	120.5	101.3
Cash	152.9	4.8%	1.0%	1.5	154.4	151.3
Uncorrelated	**3,189.2**	**100.0%**	**16.9%**	**537.6**	**3,726.8**	**2,651.5**
Including asset correlations	**3,189.2**		**13.7%**	**438.1**	**3,627.3**	**2,751.1**
Including asset & liability correlations	**3,189.2**		**14.8%**	**472.7**	**3,661.8**	**n/a**

The "Potential change" column shows the monetary effect of the expected volatility relative to each asset class. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three. It can also be seen that the risk to the overall Fund assets is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities. This risk is shown in the bottom row of the table. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

It should be noted that the asset allocation used for this analysis will differ to that shown in the financial statements earlier. This is due to the Fund reporting its asset allocation in the financial statements according to each Manager's mandate, whilst for this section the most appropriate means is to analyse the mandate according to the underlying elements.

The corresponding details as at 31 March 2021 are set out in the table below.

Asset type	Asset value £'m	Asset weight	Volatility	Potential change +/- in £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	1,721.8	60.9%	20.5%	353.0	2,074.8	1,368.8
Equities – Emerging Markets	107.3	3.8%	28.0%	30.0	137.3	77.3
Private Equity	41.3	1.5%	30.0%	12.4	53.7	28.9
Private Debt	63.7	2.2%	10.5%	6.7	70.4	57.0
Commodities	11.5	0.4%	30.0%	3.5	15.0	8.0
Property – Balanced	204.0	7.2%	13.0%	26.5	230.5	177.5
Infrastructure	303.4	10.7%	12.0%	36.4	339.8	267.0
Corporate Bonds	66.0	2.3%	7.2%	4.7	70.7	61.3
Diversified Credit	49.9	1.8%	9.5%	4.7	54.6	45.2
Fixed Interest Gilts	52.2	1.8%	8.1%	4.2	56.4	48.0
Index-Linked Gilts	39.8	1.4%	11.5%	4.6	44.4	35.2
Overseas bonds	77.5	2.7%	8.2%	6.4	83.9	71.1
Cash	94.5	3.3%	1.0%	0.9	95.4	93.6
Uncorrelated	**2,832.9**	**100.0%**	**17.4%**	**494.0**	**3,326.9**	**2,338.9**
Including asset correlations	**2,832.9**		**14.5%**	**410.8**	**3,243.7**	**2,422.1**
Including asset & liability correlations	**2,832.9**		**15.3%**	**433.7**	**3,266.6**	**n/a**

18. Funding arrangements

In line with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2020 and the next valuation is due to take place as at 31 March 2023.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise long-term scheme costs by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contributions rates where the Fund considers it reasonable to do so and
- to use reasonable measure to reduce the risk to other employers and ultimately to the tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading increases, or indeed decreases, in rates over a period of time. Normally this is three years. Solvency is achieved when the funds held plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2020 actuarial valuation, the Fund was assessed as 94% funded (92% at the March 2017 valuation). This corresponded to a deficit of £152m (2017 valuation: £184m) at the time. New employer contribution rates have been set from April 2021 by virtue of the Fund Valuation as at 31 March 2020 and increases or decreases will be phased in over the three-year period ending 31 March 2024 for both scheduled and admitted bodies.

Employer contributions are made up of two elements:

a) the estimated cost of future benefits being built up each year, after deducting members' own contributions and including an allowance for the Fund's administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the total contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The Primary rate and Secondary rate for every contributing employer in the Fund is set out in the Rates and Adjustments Certificate in the actuarial valuation report.

The Primary Rate noted in the table below is the payroll weighted average of the underlying individual employer primary rates and the Secondary Rate is the total of the underlying individual employer secondary rates, calculated in accordance with the Regulations and CIPFA guidance. Full details of the contribution rates payable can be found in the 2020 actuarial valuation on the Fund's website.

		Last valuation 31 March 2017		This valuation 31 March 2020
Primary rate (% of pay)		18.7		**21.9**
Secondary rate £	2018/19	8,506,000	**2021/22**	**1,529,000**
	2019/20	10,248,000	**2022/23**	**1,293,000**
	2020/21	11,729,000	**2023/24**	**2,957,000**

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

Financial Assumptions	Last valuation 31 March 2017	This valuation 31 March 2020
Benefits increases and CARE revaluation (CPI)	2.4%	**1.7%**
Salary increases	2.9%	**2.3%**
Investment return	3.5%	**3.2%**

Longevity Assumptions	Last valuation 31 March 2017	This valuation 31 March 2020
Baseline Longevity	Club Vita	**Club Vita**
Future improvements	CMI 2016 Peaked; 1.25% p.a. long-term	**CMI 2019 Smoothed; 1.5% p.a. long-term**
	3.5%	**3.2%**

The fund is a member of Club Vita and the baseline longevity assumptions are a bespoke set of Vita Curves that are tailored to fit the membership profile of the Fund.

Assumed Life Expectancy		Last valuation 31 March 2017	This valuation 31 March 2020
Male	Pensioners	21.2 years	**20.6 years**
	Non-Pensioners	22.7 years	**22.0 years**
Female	Pensioners	23.7 years	**23.2 years**
	Non-Pensioners	25.5 years	**25.2 years**

Commutation Assumption

An allowance is made for future retirees to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

50:50 Option

It is assumed that 1% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

GMP Indexation and Equalisation

Guaranteed minimum pension (GMP) rights have been acquired by LGPS members between 6 April 1978 and 5 April 1997. The GMP contains elements of gender inequality, including a higher retirement age for men and faster accrual rate for women.

As an interim solution to this, responsibility for fully inflation proofing GMPs has been passed to pension schemes for members reaching state pension age between 6 April 2016 and 5 April 2021.The Government recently confirmed that this interim solution should become the permanent solution.

For the purpose of 2020 valuation, the actuary prudently assumed all inflation increases on GMP for members reaching State Pension Age after 6 April 2016 would be paid for by LGPS employers. This has increased the value of the Fund's liabilities.

McCloud Case

The Court of Appeal in the "McCloud" case ruled that certain provisions introduced by public service pension schemes in 2015 were age discriminatory. In July 2019, the UK Government accepted that the ruling had implications for the LGPS and advised that the discrimination would be addressed without members having to lodge separate legal claims. A consultation undertaken by SPPA closed on 23 October 2020. The outcome of the consultation is awaited, however, the most likely method of redress will be to "level up" protections to a broader range of members. In the 2020 valuation, the actuary has taken account of McCloud by valuing the liabilities in accordance with instructions from SPPA.

Walker and Goodwin Cases

In 2017, the Supreme Court ruled in the "Walker" case that the surviving spouse of a same sex marriage was entitled to a survivor's pension based on all of a deceased's members service. SPPA have indicated that Funds should rely on Section 61 of the Equalities Act to pay equal survivor benefits. At the 2020 valuation the actuary expected this to have a very minor impact on liabilities, therefore no allowance has been made in the valuation.

More Information

The actuary has provided a statement describing the funding arrangements of the Fund during 2021/22. This can be found in Appendix 1 of this report.

Copies of the 2020 Valuation Report as well as the Funding Strategy Statement can be found on www.falkirkpensionfund.org (see link in Appendix 3)

19. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 (International Accounting Standard) basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contributions rates and the Fund Accounts do not take account of obligations to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also valued ill health and death benefits in line with IAS19.

	2020/21	2021/22
Present value of promised retirement benefits	(4,021)	**(3,900)**
Fair value of scheme assets (bid value)	2,842	**3,204**
Net liability	(1,179)	**(696)**

The Net Liability has decreased by £483m, this being the end result of an £362m increase in the value of assets and reduction in present value of promised retirement benefits of £121m.The decrease reflects the higher salary and inflation assumptions adopted by the actuary for 2021/22 IAS26 assessments.

As noted on the previous page, the liabilities are calculated on an IAS19 basis and will therefore differ from the results of the 2020 triennial funding valuation (see Note 18) because IAS19 stipulates a discount rate rather than a rate which reflects market rates. Key assumptions used are as follow:

IAS 19 Assumptions	2020/21	2021/22
Discount rate	2.00%	**2.7%**
Salary increase rate	3.45%	**3.8%**
Pension increase rate	2.85%	**3.2%**

20. Current Assets

	2020/21	2021/22
Short term debtors	£'000	**£'000**
Contributions due – employees	1,676	**1,677**
Contributions due – employers	6,046	**6,122**
Strain contribution (due within 1 year)	22	**90**
Sundry debtors	278	**46**
Prepayments	226	**275**
Falkirk Council	-	**8**
Total	8,248	**8,217**
Cash balances	3,469	**8,592**
Current assets	11,717	**16,810**

20a. Long-term debtors

	2020/21	2021/22
	£'000	**£'000**
Strain on fund contributions due in over 1 year	66	**44**

21. Current Liabilities

	2020/21	2021/22
	£'000	**£'000**
Benefits payable	(625)	**(525)**
Transfer values payable (leavers)	(226)	**(214)**
Sundry creditors	(1,872)	**(1,713)**
Falkirk Council	(148)	**-**
Total	(2,871)	**(2,452)**

22. Additional Voluntary Contributions

	2020/21	2021/22
	£'000	**£'000**
Standard Life	2,939	**3,300**
Prudential *	5,480	**6,844**
Total	8,419	**10,144**

*20/21 figure amended from prior year after receipt of audited statement from Prudential post 20/21 Accounts approval.

AVC contributions of £376k were paid directly to Standard Life (£295k in 2020/21) and £1,589k to Prudential (£1,126k in 2020/21)

23. Related Party Transactions

Falkirk Council
Falkirk Council Pension Fund is administered by Falkirk Council. Consequently, there is a strong relationship between the Fund and the Council.

The Council is the single largest employer of members of the Fund and contributed £28.2m to the Fund in 2021/22 (2020/21: £26.1m).

The Fund uses Council premises and systems, and these costs are charged to the Fund. In 2021/22 the Fund incurred a charge of £120k in respect of these costs (£120k in 2020/21). Transactions between the Council and the Fund are closely monitored with the aim of any balances being settled as soon as reasonably practicable. At 31 March 2022 the Council owed the Fund £9k (£148k in 2020/21, the Fund owed the Council) in respect of cancelled cheques. The balance was settled in April 2022.

Governance
Three members of the Pensions Committee - D Balsillie, D Macnaughtan, and J Patrick - are in receipt of LGPS benefits from the Fund. In addition, Committee members: D Aitchison, D Balsillie, J Blackwood, A Douglas and A McCue are active members of the Fund.

All members of the Pension Board are active members.

Each member of the Committee and Board is required to declare their interest at each meeting.

23a. Key Management Personnel

The key management personnel of the Fund are the Section 95 Officer and the Pensions Manager. The Fund's proportion of total remuneration payable to key management personnel is set out below:

	2020/21	2021/22
	£'000	£'000
Short term-benefits	103	**81**
Post-employment benefits	1,007	**343**
Total	**1,110**	**424**

Short-term benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which employees render related service. They may include wages, salaries, paid annual and sick leave.

Post-employment benefits are employee benefits that are payable after the completion of employment such as pensions.

24. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2022 totalled £70.5m (31 March 2021 £80.1m).

These commitments relate to outstanding call payments due to unquoted limited partnership funds held in the private equity, infrastructure, and private debt segments of the portfolio. The amounts "called" by these funds are irregular in both size and timing over the life of the investment.

At 31 March 2022 the Fund is exposed to a contingent liability of £77k (£128k 31 March 2021) related to potential abort costs in respect of Infrastructure projects with the Lothian Pension Fund. Contingent liabilities are not recognised in the net assets statement.

GMP Reconciliation

GMP Reconciliation is a national exercise to reconcile HM Revenue & Customs (HMRC) contracted out records with those of pension funds. The cost implications of the exercise are not yet fully known as the matching of records between the Fund and HMRC is ongoing. Provisional work carried out previously by third party data specialists estimated that Fund pensions may have been underpaid by £39,700 (i.e.,£4,400 annually) for pensioners and by £1,600 (i.e. £170 annually) for dependants. These numbers will be rerun once the remaining data queries have been addressed. This will be in 2022/23.

The Scottish Ministers have legislated so that any GMP related pension overpayments (arising due to incorrect GMPs being held) should not be recovered from pensioners.

25. Contingent Assets

Two admission body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn up in favour of the Fund and payment will only be triggered in the event of employer default.

Annual Governance Statement 2021/22

Fund Governance Framework
Falkirk Council operates the Falkirk Council Pension Fund ("the Fund") under the terms of the Local Government Pension Scheme (LGPS). The main functions are to manage the Fund and its investments and to administer the scheme on behalf of members and employers.

The Fund is not a separate legal entity from Falkirk Council, but it does have its own governance arrangements which sit within the Council's overarching governance framework and are consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government".

As the administering authority for the Fund, the Council is ultimately responsible for ensuring that Fund business is conducted lawfully and that the public monies flowing into and out of the Fund are safeguarded and properly accounted for.

Falkirk Council has delegated Fund business to its Pensions Committee as part of the Scheme of Delegation contained in Council Standing Orders effective 27 June 2018. Other delegations have been made to the Chief Finance Officer as set out in the Statement of Investment Principles.

The work of the Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These require various policy documents to be prepared including a Funding Strategy Statement; a Statement of Investment Principles; and a Governance Compliance Statement. The Fund has also adopted a Statement of Responsible Investment Principles. Collectively, these documents set out the Fund's key aims and objectives and approach to conducting business. Additionally, a Risk Register and Business Continuity Plan are maintained as part of the Fund's risk management framework.

Scope of Responsibility
The Pensions Committee, with the support of the Pension Board, is responsible for Fund business including regulatory compliance and oversight of management responses to audit recommendations.

The Committee and Board have broad representation from Fund stakeholder groups and are compliant with guidance provided by Scottish Ministers. Further details are included in the Fund Governance Section of the Report and Governance Compliance Statement.

The Chief Finance Officer is responsible for arranging the proper administration of the financial affairs of the Fund, including the systems of internal control and the internal audit of the Fund's control environment so as to provide reasonable assurance on substantive matters such as funding, contributions, pension payments, investment management and data security.

Funding
Funding is assessed through a three yearly valuation undertaken by an independent actuary; inter-valuation updates are provided to the Pensions Committee and Board.

Contributions and Pension Payments
Contributions paid by employers are monitored for timeliness and accuracy of payments with breaches brought to the attention of the Pensions Manager to determine whether the matter should be reported to the Pensions Regulator.

Pension payments and other financial transactions require authorisation from at least two persons including a senior officer. The Fund participates in the National Fraud Initiative (undertaken every 2 years) to identify payments being made to deceased pensioners and actively investigates cases of irregularity. These results are reported to the Pensions Committee.

The Fund also operates a Pension Administration System maintained by an experienced specialist software vendor and can take assurance from the fact that the system is used by all Scottish LGPS Funds. Changes are subject to scrutiny by a test working party of users. To aid regulatory compliance, the Fund subscribes to a specialist technical resource maintained by the Local Government Association and attends regular meetings of Scottish LGPS Funds to discuss shared issues.

Investment Management
Fund manager records are reconciled to independently maintained Accounting and Performance Evaluation records and variances investigated. Limits are set around the amounts that can be allocated to an asset class, a single manager or single holding and are checked monthly. Further oversight is provided by the Joint Investment Strategy Panel (JISP) – a collaborative arrangement between Falkirk, Fife and Lothian Pension Funds - which comprises independent advisers and professional investment specialists who are accredited by the Financial Conduct Authority (FCA). The JISP was refreshed in 2020/21 to include two new advisers.

Data Security
The Council's Information Governance framework exists to enable data to be securely managed. Staff undergo regular training on data security matters. Members are notified of the Fund's Privacy Notice at least once a year and Data Sharing Agreements are in place with employers and key service providers. Any new data provision is subject to a Data Impact Assessment signed off by the Council Information Governance Manager and Technology and Infrastructure Manager.

Control Environment
The Council is committed to the highest standards of openness, probity, and accountability. In line with that commitment, the Council, through its Whistleblowing Policy, encourages employees and others who have serious concerns about any aspect of the Council's work to come forward without fear of victimisation, discrimination, or disadvantage. Pensions staff have attended a training session on Corporate Fraud and Whistleblowing.

The Fund has a Conflict of Interest Policy which supplements the Council's own Code of Conduct for Members and Officers. In addition, all Members are required to adhere to The Standards Commission Scotland - Councillors' Code of Conduct.

Contract Standing Orders and Financial Regulations exist and operate to regulate financial and transactional activity.

The Fund maintains a risk register which was reviewed, updated and endorsed at the March 2022 Pensions Committee. Committee has also approved a Fund Assurance Map (as endorsed by the Chartered Institute of Internal Auditors) to categorise, as follows, the various levels of risk controls:

Level 1 – First line of Defence
Operational controls put in place by management, (e.g. holding a diversified mix of assets, reconciling custodian and manager holdings, monitoring contributions and cash flow, aggregate pension payments within tolerance level).

Level 2 – Second line of Defence
Internal governance arrangements including policies, performance metrics and control reports. (e.g. Funding Strategy Statement, Statement of Investment Principles, Committee reports, Asset Manager reports, Whistleblowing).

Level 3 – Third line of Defence
These are controls designed to provide independent verification of the adequacy of the first and second lines of defence. This includes the work of Internal Audit, the Fund Actuary, Government Actuary's Department and the Joint Investment Strategy Panel.

The scale of Fund investments (c. £3.2bn) underlines the importance of a robust control environment being in place for investment managers. The main sources of assurance come from regular engagement with the managers and through annual assurance control reports from each of the managers' auditors. A similar report is also provided by the Custodian. Reference to the reports for 2021/22 are set out in the Risk Section of the Annual Report.

In overseeing the Fund's control arrangements, the Chief Finance Officer has worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Monitoring and Review of Governance Arrangements
The Fund's governance arrangements are formally monitored via:

- the Pensions Committee and Board framework
- the Fund's Risk Management arrangements
- the Corporate Risk Management Group and other Corporate Working Groups
- the recording and monitoring of audit recommendations via the Council's system (Pentana)
- Internal Audit work as agreed annually with the Pensions Committee
- JISP annual review of its own effectiveness

Monitoring is undertaken within the context of the Fund's obligations to operate within a strict statutory framework and to deliver value for money,

System of Internal Financial Control
The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control.

The Council's Internal Audit Team provides assurance on arrangements for risk management, governance, and control, and undertakes an annual programme of work informed by the content of the Fund's risk register and, more recently, the Assurance Map. The programme is approved by the Pensions Committee with Board oversight.

The Fund uses a number of corporate systems, including the Council's Financial Information System and online HR system. Assurance can, therefore, be taken from the broad seam of Internal Audit work undertaken on these systems annually.

The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Internal Audit Team, including annual self-assessment and periodic (5 yearly) external assessment of compliance with the Public Sector Internal Audit Standards. A detailed self-assessment against the Standards was undertaken during February 2022. This confirmed continuing compliance with the Standards, and will be subject to independent, external validation as part of a national review process established by the Scottish Local Authorities Chief Internal Auditors' Group.

All Internal Audit reports are issued to the relevant officers and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Internal Audit reports are always brought to the attention of the Pensions Committee and Pension Board, and any matters of significance highlighted and commented upon by management. During 2021/22, there were no matters of significance which required to be brought to the attention of the Committee and Board.

Audit Findings and Recommendations
During 2021/22, Internal Audit undertook a review of cyber security arrangements and sample tested a variety of transactions relating to pensions administration activities.

Internal Audit were able to provide Substantial Assurance in relation to the adequacy and effectiveness of the areas audited. The recommendation are summarised in table on the next page:

	Item	Timescale	Responsible Person	Committee Approval Required	Completion Status
1	The Pension Fund's Business Continuity Plan	November 2022	Pensions Manager	Yes	In progress

	to be reviewed and updated.				
2	Obtain internal sources of cyber security assurance.	August 2022	Pensions Manager	No	Complete
3	Obtain cyber security assurance from external sources.	April 2022	Pensions Manager	No	Complete

These recommendations were made in view of the potential for a cyber-attack and the arrangements, key roles and responsibilities arising in the event of an attack.

The findings have been reported to the Chief Finance Officer and the Director of Transformation, Communities & Corporate Services and will be reported to the Pensions Committee and Pension Board during August 2022.

Covid-19

The outbreak of the Covid-19 pandemic continued to have an impact on the Fund's control environment during 2021/22 and can be considered from the following perspectives:

- service delivery
- asset valuations and funding
- oversight
- longer term consequences

Service Delivery

Contingency measures were activated initially in 2019/20 to protect the wellbeing of staff and to facilitate continuity of service provision with measures, such as a mix of home and office working being introduced. This style of hybrid working is now the norm and work practices and protocols for the authorisation of payments and documents are now well embedded and very effective with the Fund continuing business as usual in a more flexible and resilient way.

Asset Valuations and Funding

Since its onset, the pandemic has led to a dramatic curtailing of economic activity during the lockdown periods. However, markets have invariably recovered buoyed by the vaccine roll out; the more muted impact of the Delta and Omicron variants; and continuing fiscal stimulus from Government.

Throughout the crisis, the Fund has continued to be cash flow positive and under no pressure to sell assets. Assets themselves are well diversified and include Property, Bonds and Infrastructure all of which are income generative. The funding update of 31 March 2022 showing a funding level of 113% is testament to the resilience of the Fund.

The 2020 Valuation exercise afforded the opportunity for each employer's position in the Fund to be closely and independently examined and appropriate contribution rates applied.

Oversight

2021/22 has seen Committee and Board meetings return to normal scheduling albeit in online mode. Induction training for Committee and Board members has also been delivered online with training planned to revert to in-person training during 2022/23.

Long-Term Consequences

Whilst Covid-19 has moved from pandemic to endemic status, its economic effects are still apparent with burgeoning inflation and rising interest rates. This has been compounded by the war in Ukraine with its impact on energy security and food supplies. It is probable that these challenging financial conditions will continue into 2023. The Fund is comfortable that its diverse spread of investments coupled with the strong covenants of its sponsoring employers will enable it to operate satisfactorily until more benign conditions return.

The longevity of the pandemic and how living with Covid-19 may affect our working patterns throughout the seasons of the year mean we need to work in a more mobile and flexible manner. In consequence, hybrid working, where staff mix working from home with working in the office, is now an embedded feature of the modern workplace, bringing with it increased stability and resilience to operational activity. The challenges of the pandemic have again raised the question of the resilience of the Fund and supports the ongoing dialogue with the Lothian Pension Fund about merging operations.

Certification

This Annual Governance Statement summarises, openly and transparently, arrangements made by Falkirk Council Pension Fund for 2021/22 and for the period to the date of publication of these Accounts.

The statement makes reference to the overall governance framework of the Fund; the areas where responsibilities lie; and the wider control environment. This is complemented by the work of Internal Audit during the year. The statement also recognises the challenges in responding to the Covid-19 outbreak and highlights measures taken.

Where areas for improvement have been identified, an action plan has been agreed and will be prioritised by management and reviewed in due course by the Pensions Committee and Pension Board. The Fund will continue to monitor and evolve its governance arrangements as necessary.

It is our view that the contents of the statement demonstrate the adequacy and effectiveness of the governance arrangements in place during 2021/22 for the Pension Fund.

Lorna C Binnie K.G.E. Lawrie

Councillor Lorna Binnie
Chair of the Pensions Committee

Kenneth Lawrie
Chief Executive Falkirk Council

Governance Compliance Statement

Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2018 (SSI 2018/141) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements. The undernoted Statement tests the Fund's compliance with the best practice principles as set out in the SPPA Best Practice Guidelines of April, 2011.

Principle A – Structure

Requirement	Level of Compliance	Arrangements in Place
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	Full Compliance	Falkirk Council, as administering authority of the Fund, has established a Pensions Committee to which it has delegated the administration of benefits and strategic management of fund assets. The implementation of investment strategy has been delegated to the Chief Finance Officer subject to proper advice being provided by a Joint Investment Strategy Panel comprising specialist officers and independent advisers.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Full Compliance	The Pensions Committee includes three co-opted members reflecting the Fund's composition of members, pensioners and employers.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Full Compliance	The main channel of communication between the Pensions Committee and Board lies in the fact that quarterly Committee meetings are joint meetings with the Board, with a shared agenda and with both parties having full access to papers.
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated	Not Compliant (as no longer relevant)	The statutory role of the Pension Board with oversight of Committee activity means it is not appropriate for a Board

for a member from the secondary committee or panel.		member to also sit on the Committee.

Principle B – Representation

Requirement	Level of Compliance	Arrangements in Place
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: Employing authorities (including e.g. admission bodies); Scheme members (including deferred and pensioner scheme members)	Full Compliance	Representatives of fund employers, including an admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee Active, deferred and pensioner members are represented by Trade Union members who sit on the Pension Board. A Trade Union member also sits on the Pensions Committee. Pensioners are represented by a pensioner member who sits on the Committee.
Where appropriate, independent professional observers; and	Not Compliant	There are no independent professional observers of Committee or Board business. It is considered that: • the diversity of representation (employers, pensioner and Unions) • the Joint Investment Strategy Panel • the training arrangements; • the annual audit process; and • attendance of professional advisors provide robust and adequate scrutiny of pension fund business
Expert advisors (on an ad-hoc basis).	Full compliance	Support for the Pensions Committee and Pension Board is provided by specialists in the following areas: • actuarial and investment advisers • corporate governance advisers • investment managers and custodian
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given	Full compliance	The co-opted members on the Pensions Committee and the Pension Board all have equality of access to papers, meetings and training. The co-opted

full opportunity to contribute to the decision making process, with or without voting rights.		members also have full opportunity to contribute to the decision making process, including the right to vote.

Principle C – Selection and role of lay members

Requirement	Level of Compliance	Arrangements in Place
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Full compliance	Members of the Pensions Committee will be subject to the agreed Code of Conduct. Members of the Pension Board will be appointed on the understanding that they will be subject to the agreed Code of Conduct. Appropriate training will be delivered to Committee and Board members
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Full compliance	Declaration of interests is a standard procedure at the start of all Committee and Board meetings. Declarations are noted in the minutes.

Principle D – Voting

Requirement	Level of Compliance	Arrangements in Place
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full Compliance	All members of the Pensions Committee including co-opted members will have voting rights on the basis that they have executive responsibility for pension fund decision making.

Principle E – Training / Facility Time / Expenses

Requirement	Level of Compliance	Arrangements in Place
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Full Compliance	The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pension Board members. Training is delivered in large part by addressing specific items at Committee and Board meetings and complemented by

		visits to Fund Managers, bespoke training events and attendance at industry seminars and conferences. Expenses incurred by Committee and Board members are met either by the Fund or the Falkirk Council scheme for payment of members' expenses.
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full Compliance	The Training Policy for the Pensions Committee and Pension Board applies uniformly to all members.
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Full Compliance	The Training Policy for the Pensions Committee and Pensions Board includes the requirement for members to undergo training needs analysis and the development of commensurate training plans. A register of training undertaken is maintained.

Principle F – Meetings (Frequency/Quorum)

Requirement	Level of Compliance	Arrangements in Place
That an administering authority's main committee or committees meet at least quarterly.	Full Compliance	The Pensions Committee hold quarterly meetings. Additional meetings are called as required.
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Full Compliance	Pension Board meetings are held concurrently with Pensions Committee meetings which will result in a minimum of four meetings per year. Additional meetings are called as required.
That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Full Compliance	The Council does include lay members on its Pensions Committee. However, in order to ensure that the interests of wider fund stakeholders can be represented, the Fund generally holds a Pensions & Investment Conference each year.

Principle G – Access

Requirement	Level of Compliance	Arrangements in Place

That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Full Compliance	Members of Pensions Committee and Pension Board have equal access to any committee papers, documents and advice that falls to be considered at meetings of the Pensions Committee.

Principle H – Scope

Requirement	**Level of Compliance**	**Arrangements in Place**
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full Compliance	The agendas for Pensions Committee / Board meetings include reports pertaining to both administration and investment matters such as regulatory changes, actuarial valuation and funding level updates, admission agreements, investment strategy and Fund / Investment Manager performance.

Principle I – Publicity

Requirement	**Level of Compliance**	**Arrangements in Place**
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Full Compliance	Through their representation on the Committee and Board, employers, Unions and Pensioners have been involved in the development of the Fund's governance arrangements. Full details of the Governance arrangements are published on the Fund's website.

Chief Finance Officer
Falkirk Council,
Approved - 24th August 2017

Appendix 1

Actuarial Statement for 2021/22

Falkirk Council Pension Fund ("the Fund")
This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy
The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2021. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation
The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £2,329 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2020 valuation was £152 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2020 valuation report.

Method
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2020 valuation were as follows:

Financial Assumptions	31 March 2020
Discount rate	3.2%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	1.7%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long-term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.6 years	23.2 years
Future Pensioners*	22.0 years	25.2 years
*Currently aged 45		

Copies of the 2020 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2020
Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered very strongly in 2020 and 2021. Due to the war in Ukraine, early 2022 resulted in volatile markets, which affects values at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be significantly better than that reported at the previous formal valuation as at 31 March 2020.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Julie West FFA

For and on behalf of Hymans Robertson LLP

11 May 2022

Appendix 2

Scheduled and Admission Bodies as at 31 March 2022

Scheduled bodies open to new members

Central Scotland Joint Valuation Board
Clackmannanshire Council
Falkirk Council
Forth Valley College
Scottish Children's Reporter Administration (SCRA)
Scottish Environment Protection Agency (SEPA)
Scottish Fire and Rescue Service
Scottish Police Authority
Stirling Council

Admission bodies

Open to new members	Closed to new members	Closed to new members with deferred or Pensioner members only*
Active Stirling	Amey (Clackmannanshire Schools Project)	Alsorts
Colleges Scotland	Ballikinrain School	Central Carers Association
Cowane's Hospital	Cromwell European Management Ltd	Central Scotland Council for Regional Equality
Dollar Academy Trust	Haven Products Ltd	Ceteris
Falkirk Community Trust Ltd	Scottish Autism	McLaren Community Leisure Centre
Forth and Oban Ltd (Falkirk Schools)	Sodexo	Open Secret
Forth and Oban Ltd (Stirling Schools)		Plus
Smith Art Gallery		thinkWhere Ltd
Strathcarron Hospice		Seamab School
Water Industry Commission for Scotland		Snowdon School Ltd
		Stirling District Tourism Ltd
		Stirling University
		Stirling Enterprise (STEP)
		Waterwatch Scotland

*No Fund liability remains with the employers in this group. Either a cessation payment has been made, an exit credit returned or the three Councils in the Fund -

Clackmannanshire, Falkirk, and Stirling Councils - have assumed responsibility for the Fund liabilities of these employers in return for being allocated their share of the Fund’s assets.

Appendix 3

Links to key documents

Valuation report
210331-fcpf-31-march-2020-valuation-results-report-final.pdf (falkirkpensionfund.org)

Funding Strategy Statement
006-funding-strategy-statement-appendix-1-with-dates-updated.pdf (falkirkpensionfund.org)

Statement of Responsible Investment Principles
statement-of-responsible-investment-principles.pdf (falkirkpensionfund.org)

Statement of Investment Principles
statement-of-investment-principles.pdf (falkirkpensionfund.org)

Risk Management Policy
Microsoft Word - 008. Pension Fund Risk Register - Appendix 1 (falkirkpensionfund.org)

Governance Policy
Microsoft Word - Governance Policy and Compliance Statement.doc (falkirkpensionfund.org)