FALKIRK COUNCIL PENSION FUND

AUDITED ANNUAL REPORT & ACCOUNTS 2017-18

Falkirk Council

Contents

Foreword from the Chair of the Pensions Committee

As Chair of the Pensions Committee with responsibility for overseeing the investment management and administration of the Falkirk Council Pension Fund, I am pleased to introduce the 2017/18 Annual Report and Statement of Accounts.

Where 2016/17 was a year of massive political stories with the UK's historic decision to leave the European Union and the election of President Trump in the US, 2017/18 has been a more subdued affair as the UK has sought to negotiate its exit terms with the EU and the Trump administration has grappled with issues both home and abroad. For most of the year, financial markets showed steady growth. That was until February, 2018 when mounting concerns about interest rates, a possible trade war between the US and China, and geopolitical tensions generally sparked a sell off in the markets. Although markets have since recovered the lost ground, it was a timely reminder that they do not rise indefinitely and, for an investor such as the Falkirk Fund, the best defence is to be invested in a broad range of assets being mindful of their various risk and return characteristics.

The Local Government elections of May, 2017 resulted in a substantial change of personnel within the composition of the Pensions Committee and I would like to thank those Committee members who stepped down for their sterling efforts over the years.

At this point, I also wish to pay tribute to Councillor Tom Coleman who, following the May election, had taken over as Chair of the Pensions Committee and who sadly passed away in November, 2017. Councillor Coleman, with his insightful comment and wry humour was a respected and influential member of the Pensions Committee over a long number of years and we are the poorer for his loss. Can I also record my thanks to former Chair, Councillor John Patrick who, following Tom's death, acted as Chair until my own appointment in February, 2018.

2017/18 has seen the Fund conclude its triennial Funding Valuation of 31 March 2017. The valuation is the Fund's regular health check and is also the catalyst for its Actuary, Hymans Robertson, to set contribution rates for the 35 or so employers who participate in the Fund. It is pleasing to note that this time round there has been an improvement in the funding level from 85% at the 2014 valuation to 92%. Unfortunately, a more pessimistic economic outlook, coupled with the continuing low interest rate environment, means that employers have been asked to pay contributions at historically high levels. I recognise the challenge that this brings and I am fully supportive of our approach which has been to work with employers on this difficult issue. In this regard, I note that the Pensions team has held a large number of face to face meetings with individual employers to enable there to be a mutual appreciation of employers' business needs and pension fund requirements.

Flowing from the valuation exercise, the Fund will be conducting a review of investment strategy in the early part of 2018/19. This will be to ensure that the Fund's allocation of capital to various asset classes – equities, bonds, property, etc - is consistent with our key funding aims of positioning employer contributions at an affordable level and being fully funded over a 20 year period.

Being a global investor brings global responsibilities. The impending strategy review will take in the Fund's investment beliefs, including its approach to Environmental, Social and Governance matters. As a responsible investor, the Falkirk Fund makes sure that its votes are cast at company AGMs, taking a firm line on questionable corporate practices such as excessive Executive Pay. The Fund is also a member of the Local Authority Pension Fund Forum and supports initiatives on issues such as tax transparency and climate change.

In recent years, the Falkirk Fund has been gradually extending its collaborative relationship with the Lothian Pension Fund to the mutual benefit of both Funds. 2017/18 was the first year in which a new joint investment governance model was put to the test. Essentially, the model allows the Pensions Committee to focus on developing investment strategy – the main determinant of return - with the implementation of strategy (e.g. manager selection, deselection, etc) being delegated to the Chief Finance Officer. The model has been working well thus far with a broader range of investment advice now available to the Committee and Chief Finance Officer. I very much welcome the close relationship with Lothian and the greater resilience and opportunities that it brings to the Falkirk Fund.

Mention of collaboration reminds me that the Scheme Advisory Board – the body responsible for advising the Scottish Ministers on Local Government Pension Scheme policy matters - continues to debate a suitable structure for the Scheme in Scotland. Fund mergers and/or greater collaborative working are some of the options being considered. It is hoped that matters can be resolved within a reasonable timescale as funds do require a degree of certainty about the future if they are able to have the confidence to plan ahead and improve outcomes for stakeholders.

Whilst well thought-out strategies on Funding, Investment and Governance are important, a pension fund, first and foremost, is about paying pensions to the right people at the right time. For Falkirk, this involves making regular payments to over 10,000 pensioners and receiving contributions from 15,000 active members. These numbers underline the ongoing relevance of the Fund to society and the important role it continues to play in providing security and stability of income for pensioners as well as an attractive means of saving for public sector employees.

Finally, can I take this opportunity to thank my colleagues on the Committee and Board as well as the Pensions staff and our advisors for their dedication and efforts during the year.

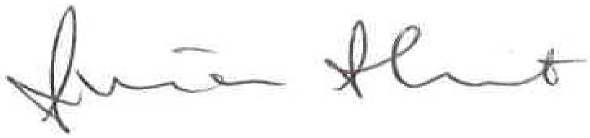
Councillor Adanna McCue
Chair of Falkirk Council Pensions Committee

Statement from the Chair of the Pension Board

In accordance with the LGPS Governance (Scotland) Regulations 2015, the Scheme has established a Pension Board, containing equal numbers of representatives of Scheme employers and relevant trade unions. The Chair rotates on an annual basis between a scheme employer representative and a trade union representative. During the year under review it was the turn of an employer representative, and it has been a pleasure to work alongside my fellow Pension Board members during what has been another interesting year in the development of the Scheme.

The purpose of the Pension Board is to assist the Scheme Manager in relation to compliance with all regulatory and legislative matters concerning the governance and administration of the Scheme. In order to carry out this role, Pension Board members attend all meetings of the Pension Committee, and are entitled to receive and scrutinise all the reports, updates and strategy documents considered and voted on by the Committee. The Pension Board has the formal powers to seek its own reports from the Scheme manager, to meet separately from the Pension Committee, and to request the Committee to review its decision where a majority of Board members disagree with a Committee decision.

During the 2017/18 Scheme year, Pension Board members have consistently attended all meetings of the Pension Committee, and been given full opportunity to question the Scheme managers and their advisors on all matters considered important by Board members. I am pleased to say there has been a high level of continuity of Pension Board members over the last couple of years, and that those members bring, or have developed, a strong understanding of good pension scheme management and governance; this continuity and understanding are particularly important given another significant change in Pension Committee membership following the May 2017 local elections. It has been a significant year for the Scheme, the major governance change being the implementation of the Joint Investment Strategy Panel at the start of the year, progress on which has been well reported to the Pension Committee and Board during the year. Happily the Pension Board has not felt the need to request the Committee to review any of its decisions, which indicates a good level of satisfaction with the governance and administration of the Scheme.



Simon Hunt
Chair of Falkirk Council Pension Board

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The Pension Section Administration Team is available to help with all aspects of scheme membership including benefits for active, deferred and pensioner members.

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Reference is made in this report to a number of key documents with a link to the on-line version available (these are displayed with underlining). If you are unable to access any of these, or would like a hard copy, please don't hesitate to contact us using the above General Enquiries telephone number.

Management Structure

Administering Authority:	Falkirk Council Municipal Buildings West Bridge Street Falkirk FK1 5RS
Fund Officers:	Bryan Smail, Chief Finance Officer Alastair McGirr, Pensions Manager
Legal Advisors:	Falkirk Council – Legal Services Lothian Pension Fund (Shared Services)
Fund Custodian:	The Northern Trust Company
Performance Measurement:	The Northern Trust Company
Actuary and Investment Advisor:	Hymans Robertson LLP Joint Investment Strategy Panel
Fund Managers:	Aberdeen Standard Ancala Partners Baillie Gifford Dalmore Capital Equitix Investment Management Ltd FIM Harburnhead Ltd Grosvenor Capital Harbert Management Corporation Hearthstone Investments InfraRed Capital Partners KKR Legal and General Investment Management M & G Investments Newton Investment Management Schroder Investment Management UBS / Greensands Wilshire Associates
Bankers:	Clydesdale Bank, Royal Bank of Scotland
AVC Providers:	Prudential / Standard Life
Independent Auditor:	Ernst and Young LLP 2 St Peter's Square, Manchester M2 3DF

Management Commentary

Introduction
The Local Authority Accounts (Scotland) Regulations 2014 and accompanying guidance require the Annual Report and Accounts to contain a Management Commentary including:

- an overview of Fund business
- a description of the Fund business model and Fund risks
- a review of financial performance and key strategies
- an analysis of trends and influences
- a review of policies in relation to Social, Environmental and Governance issues
- an analysis of staffing resources by gender

Overview of Fund Business
Under the statutory provisions of the Local Government Pension Scheme, 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 to the Fund are made by employee members and by participating employers. The Fund also receives income from its range of investments.

The Fund operates under the terms of the Local Government Pension Scheme, which is a public sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To join the scheme, a person must be employed by a local authority or designated body and not be eligible to join another public sector scheme.

Employers who participate in the Fund are either Scheduled Bodies – in which case they are 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 on Page 108.

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.

Business Model and Risk

Falkirk Council Pension Fund is managed and administered from the Municipal Buildings in Falkirk.

The majority of the Fund's activities are managed in-house by the Council's Pensions Section, which is accountable to the Pensions Committee, the Pension Board, Fund Employers and Scheme Members.

The in-house team is committed to providing a quality service to meet the needs of the Fund's diverse stakeholders and to delivering high standards of customer care.

Pension Fund activity can be split into the following categories:

- Membership and Benefits Administration
- Investment Management
- Governance
- Funding
- Accounting
- Communications

Membership and Benefits Administration is undertaken internally by the Council's Pensions Section. For more detailed information on this activity, turn to the Scheme Operations Section on Page 29.

Investment Management of the Fund's assets is undertaken by a range of investment managers who have been appointed by the Pensions Committee on the basis of external advice. Under new governance arrangements, the Pensions Committee continues to be responsible for setting investment strategy but with the actual implementation of strategy being the responsibility of the Chief Finance Officer. In implementing strategy, the Chief Finance Officer receives advice from a Joint Investment Strategy Panel (JISP). The JISP comprises qualified investment professionals from Lothian Pension Fund as well as independent advisers and builds on the collaborative relationship between the Falkirk and Lothian Pension Funds whereby the Lothian Fund provides investment monitoring support to Falkirk via a Shared Service resourcing agreement. Information about the Fund's investment management arrangements is given on Page 36.

Governance is undertaken by the Pensions Committee to whom Fund business has been delegated by Falkirk Council. This includes the setting of funding and investment policy. The Committee is supported by a Pension Board to ensure that its decisions are made within the terms of the Scheme rules and in accordance with good practice. More information on the Governance process can be found on Page 24.

Funding arrangements are undertaken internally by the Pensions Section with the assistance of Hymans Robertson, the Fund Actuary.

Communication is delivered via a dedicated Pension Fund website (www.falkirkpensionfund.org), through members' mailshots, and by messaging pensioners via their regular pension advice slips.

Awareness of risk and risk mitigation is a key facet of the Fund's strategic and operational activities. Whilst it is not possible to eliminate risk entirely, the Fund actively manages risk and puts strategies in place to minimise its adverse effects.

Matters deemed to be of the greatest threat to the Fund in terms of severity and likelihood of occurrence are documented in the Fund's risk register. An update on risk is tabled as a standing item at quarterly Committee and Board meetings. More information on risk can be found at Page 34 of this report.

The Pensions Section also provides a calculation and payments service for Fund employers in respect of Compensatory Added Years awarded under the Local Government (Discretionary Payments and Injury Benefits)(Scotland) Regulations 1998. These payments are met in full by the former employer on a pay as you go basis and do not form part of Falkirk Council Pension Fund's liabilities.

Financial Performance

In a year when persistently strong investment returns eventually gave way to a market downturn, the Fund achieved a return of 3.1% during 2017/18 which was 0.6% above the Fund benchmark of 2.5%. The return was achieved against a backcloth where interest rates remained at historically low levels, albeit with the Bank of England base rate being increased from 0.25% to 0.50% in November, 2017.

One year is a very short period over which to assess performance with 3 and 5 year returns being a more realistic timeframe. During these periods, the Fund returns against benchmark were as follows:

	1 year return	3 year return	5 year return
Fund return	3.1%	7.9%	8.8%
Benchmark Return	2.5%	6.8%	7.7%
Outperformance	0.6%	1.1%	1.1%

Further performance investment information is available on Page 39.

Fund assets at 31 March 2018 were approximately £2.3 billion, an increase of around £70m over the year, reflecting a steady year for investment returns generally.

Fund liabilities have increased during the year and were estimated to have risen from £2.4bn at 31 March 2017 to £2.5bn at 31 March 2018 mainly due to slight decline in gilt yields. The liabilities at 31 March 2018 have been estimated by the Fund Actuary rolling forward cash flows and investment returns from the 2017 triennial valuation.

The £2.5bn does not appear in the financial statements as the statements do not take account of the Fund's obligations to pay pensions after the 31 March 2018.

The increase in liabilities means that the deficit has increased from £184m at the 31 March 2017 to an estimated £230m and that the funding level has reduced from 92% to 91%. The Fund has a robust funding strategy in place with the majority of Fund employers paying increased contributions from April, 2018 to further reduce their deficits. A review of investment strategy is scheduled for 2018 to ensure that the level of investment risk and return is consistent with the funding aims of eliminating the deficit over 20 years and keeping contributions at an affordable level.

On the asset side, total contributions have decreased by around £2m mainly due to a reduction in employer early retirement strain contributions, whilst normal employer and employee contributions have remained broadly unchanged between 2016/17 and 2017/18.

Actuarial Valuation as at 31 March 2017

An actuarial valuation of the Fund takes place every three years and acts as an independent financial health check to determine how much money needs to be paid into the Fund by employers so that it can continue to pay benefits both now and in the future.

The most recent valuation of the Fund took place at 31 March 2017 and has set the contribution rates to be paid by Fund employers for the 3 years between 1 April 2018 and 31 March 2021. The valuation showed that the Fund was 92% funded, meaning that it had 92% of the monies needed to pay the benefits of scheme members based on the rights they had accumulated to 31 March 2017. The key results in comparison with the 2014 valuation results were as follows:

	Valuation at 31/03/2014	Valuation at 31/03/2017
Past Service Liabilities	£1,860m	£2,403m
Assets	£1,577m	£2,219m
Funding Deficit	£283m	£184m
Funding Level	85%	92%
Future Service Cost	17.9%	18.7%

In terms of asset growth, the Fund achieved an aggregate return of 38.1% over the three years from April 2014 to March 2017. Set against this, however, was the fall in the discount rate over the inter-valuation period, leading to the higher value being placed on Fund liabilities.

The discount rate was derived using a “gilts plus” model, calculated by adding an asset outperformance value to the risk free return that can be achieved from gilts. The discount rates used at the 2014 and 2017 valuations are set out below:

	2014 Valuation	2017 Valuation
Return on Long Dated Gilts	3.5%	1.7%
Asset Outperformance Value	1.6%	1.8%
Discount Rate	5.1%	3.5%

The discount rate is also the measure of expected future investment returns. Due to the lower gilt yield of 1.7%, reflecting the market’s more pessimistic economic outlook, expected future investment returns have reduced. The assumption about lower investment returns has resulted in future benefits being more expensive to fund, and has meant that employers’ contribution rates have generally increased following the 2017 valuation.

Local Government Pension Scheme benefits that are in payment increase in line with price inflation, whilst the liabilities of active member are impacted by salary inflation. Both metrics have been reduced from 2014. The assumption for price inflation has been derived from the Bond market’s expectations about inflation, whereas the lower assumption for salary inflation reflects pay growth restrictions in the public sector and the fact that there is a diminishing cohort of members in the scheme with benefits linked to final salary.

The actuarial assumptions adopted for inflation at the 2014 and 2017 valuations were therefore as follows:

	2014 Valuation	**2017 Valuation**
Benefit Increases	2.7%	2.4%
Salary increases	4.0%	2.9%

Life expectancy is also a key factor in assessing fund liabilities. The 2017 valuation assumptions reflect the fact that the steady improvement in longevity experienced in recent years appears to have plateaued, with average life expectancies from age 65 - as illustrated in the table below - having declined slightly or remained unchanged from 2014:

	2014 Valuation	**2017 Valuation**
Male Pensioners	22.1 years	21.2 years
Male Non Pensioners	24.3 years	22.7 years
Female Pensioners	23.8 years	23.7 years
Female Non Pensioners	26.3 years	25.5 years

Full details of individual employer contribution rates and the actuarial assumptions adopted for the 2017 Valuation are contained in the Valuation Report.

An actuarial statement for 2017/18 prepared by the Fund Actuary can also be viewed at Appendix 1.

The next valuation of the Fund will be as at 31 March 2020 and will set employer contribution rates for the period 1 April 2021 to 31 March 2024.

Funding Strategy Statement

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. It is also intended to give employers reassurance that individual funding positions are being determined in a consistent way and that there is transparency around the overall funding process.

As a pre-cursor to completing the 2017 Valuation exercise, funding strategy has been reviewed and a revised Funding Strategy Statement put in place from March 2018.

The key objectives of the strategy are:

- for the Fund to be fully funded
- for any deficit to be repaired over a maximum period of 20 years
- for the Fund to have sufficient cash to pay member benefits as they fall due
- for employer contributions to be stable and affordable

Under the strategy, individual employer contribution rates will be set using a risk based approach, having regard to the following three factors:

- the money each employer needs to hold in order to pay benefits ("funding target")
- the period of time over which full funding will be targeted for each employer ("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

Whilst the probability threshold mentioned in the 3rd bullet above will vary depending on the ability of each employer to meet its obligations, the strategy requires that there should be a 75% or more chance of an employer being fully funded at the end of the time horizon (measuring liabilities using an investment assumption of long-dated gilts plus 1.8%).

A stability mechanism is in place within the strategy to allow employers with very strong covenants to graduate their contribution increases (or decreases) and enable them to avoid the budgetary difficulties and volatility that comes from sharp changes in employer contribution rates.

In order to achieve its funding objectives, the Fund sets its investment strategy to deliver the desired level of investment return taking into account the risk appetite of the Committee and the sustainability of employer contribution.

Investment Strategy

The Investment Strategy of the Fund is to invest monies in a prudent and diversified manner, in accordance with the Scheme regulations and in recognition of the risks that accompany investment in various asset classes. The strategy is set out in the Fund's Statement of Investment Principles.

The long term element of the strategy is for the Fund to reduce exposure to more volatile asset classes to a point where there is parity between the growth-seeking and defensive assets. The reduction in growth seeking assets will however only take place when market conditions are attractive and the Fund is on track in repairing its funding deficit which, at the 31 March 2018 is estimated to be £230m.

The investment strategy takes account of the Fund's ambition to repair its deficit and achieve a fully funded status over a 20 year period, whilst maintaining contribution affordability. The strategy is reviewed regularly to ensure that the level of investment risk being taken is consistent with this aim.

2017/18 has largely been a year of consolidation in terms of investment strategy as new investment governance arrangements have taken root and the outcome of 2017 Valuation has been awaited. In the interim, the Fund has continued to monitor all of its portfolios and, in line with the strategy of broad diversification, has made further allocations to its infrastructure portfolio and a new allocation to the private debt asset class.

A wide ranging review of strategy will be conducted in the autumn of 2018.

Performance Standards

The Fund measures its performance against a number of pre-determined standards with performance information being supplied to both CIPFA and the Scottish Government as part of an annual review across all Councils.

The performance of the Pensions Section against key standards in 2017/18 was as follows:

Membership and Benefits Administration Cost to be less than £25 pa per member	
Achieved in Full	Per member cost was £23.90 (£19.25 in 2016/17)

Meet deadlines for accounts, benefit payments, statistical returns and remittances	
Achieved in Part	All of the above were made within statutory time limits.

Fund to achieve its benchmark return	
Achieved in Full	Fund returned 3.1% against a benchmark of 2.5% (20% against 18.4% in 2016/17)

Fund Managers to achieve their individual benchmark returns	
Achieved in Part	Benchmark was exceeded in 7 out of 10 mandates (in 5 out of 9 in 2016/17)

- The cost per member has increased to £23.90 in 2017/18 from £19.25 in 2016/17. The higher cost is mainly attributable to an increase in the staffing establishment designed to meet member needs and the standards of service being sought by the Pensions Regulator.

- Statutory deadlines were met except for a small number of benefit statements which were issued shortly after the deadline.

- The requirement to focus resources on care pay validation and benefit statement production, together with the ongoing strong demand for severance estimates continued to place a pressure on turnaround times for lesser priority activities such as transfers and deferred benefits.
- The Fund has now outperformed its benchmark in each of the past 6 years.

Fund Manager performance is reviewed on a quarterly basis by the Joint Investment Strategy Panel (comprising FCA accredited officers and independent advisers) and reported to the Pensions Committee. Whilst Manager scrutiny is a key aspect of fund stewardship, it is the strategic asset allocation that will have a greater impact on Fund returns than the ability of individual managers to deliver performance ahead of their benchmarks.

The Pensions Section prepares an Annual Budget which is subject to the approval of the Pensions Committee. The budget for 2018/19 and costs for 2017/18 are given on Page 31 of the Annual Report and on Page 67 in Note 11 of the Statement of Accounts.

Trends and Influences - Administration

- The Fund Valuation as at 31 March 2017 disclosed that the Fund was 92% funded compared with 85% at the previous valuation of 31 March 2014. Despite the improved funding level, most Fund employers have been asked to increase their contributions due to the low interest rate environment which places a high value on liabilities and a more cautious economic outlook, dampening investment return expectations.

- The Pensions team and the Actuary have communicated with all Fund employers to ensure that funding plans are agreed and understood. A number of smaller employers have indicated that the Scheme with its current contribution rates is no longer sustainable for them. The Fund will work with these employers to ensure that any exits are carefully managed in order to minimise the impact on remaining employers.

- The additional scrutiny of administration activities by the Pension Regulator and the Fund's desire to deliver an improved level of service has led to an increase in the staffing complement during 2017/18.

- The desire to improve the timeliness and accuracy of employer data has led the Fund to promote the electronic exchange of data with employers using a middleware product known as i-connect. A number of small and medium sized employers have been on-boarded in 2017/18 with more employers scheduled to follow in 2018/19.

- The importance of holding accurate data is underlined by the General Data Protection Regulations which have been introduced with effect from 25 May 2018. The Fund has uploaded a Privacy Notice on its website and is in the process of exchanging data sharing protocols with Fund employers and other service providers.

- Coming into effect from 1 June 2018 is a new set of LGPS regulations. Whilst mainly being a consolidation of previous regulations these contain important new provisions such as giving Funds greater flexibility in relation to employer cessations as well as giving members the right to take benefits voluntarily on attaining age 55.

- In order to deliver the administration service, the Pensions team uses a system called *Altair* which is supported and maintained by Pension Consultants, Heywood and used by the majority of UK local authority funds. The contract for the administration system is due for renewal during 2018/19 and discussions with the Council's Procurement team are underway to ensure the team have continued access to a compliant system.

- During 2017/18, various elements of the Altair system were successfully deployed for the first time. This included using Altair for year-end tax filing, P60 production and the application of Pensions Increase.

- The Council (and Fund) began to transfer its banking arrangements at the end of 2017/18 with the transition scheduled for completion in 2018/19. The necessary testing will be undertaken prior to any "go live" date.

- The pressures on local government spending mean that a high volume of member and employer retirement estimates have been experienced in 2017/18 and can be expected to continue in 2018/19.

- Significant Government initiatives, such as "Freedom and Choice" and GMP Reconciliation mean that the tempo of pensions activity remains brisk with challenges on a variety of fronts.

Trends and Influences - Investment

- Despite a return to volatility during the latter part of 2017/18, global economies are showing steady growth, buoyed by US Government spending plans which are scheduled to add $300m to a strongly performing US economy. This may well herald further increases in interest rates albeit these are likely to be applied on a gradualist basis to avoid damaging economic growth.

- Even with some interest rate rises, inflation is expected to remain low by historical standards with global economic growth forecast to be slower than in recent decades. This can be attributed to various factors, including limits on improvements in productivity and a slowdown in the growth of the global working age population.

- Markets have been remarkably resilient to geo-political threats in recent years, riding out a host of events including the Brexit vote, US foreign policy on North Korea and Iran, US withdrawal from the Paris Climate Change Agreement, the UK/EU's relationship with Russia, terrorist attacks in Europe and instability in the Middle East.

- With many of the Fund's assets generating income in foreign currency (e.g. the dollar or euro), the weakened position of sterling since the Brexit vote continues to be of material benefit to the Fund.

- Technological advances, cyber security and GDPR obligations will be important themes for companies in 2018/19 and will require to be addressed in their business models.

- An initiative by the UK Government to improve manager selection, reduce costs and create greater scale for infrastructure investment is moving forward in England and Wales. The so-called "pooling" initiative can be expected to influence policy north of the border and will doubtless be considered as part of the Scottish Government's forthcoming review into the structure of the Scheme in Scotland.

- The improved funding level disclosed in the 2017 Valuation is a significant factor in the Fund's impending review of investment strategy at which time consideration will require to be given to the appropriate asset mix for the Fund and in particular the level of risk assets that should be held.

- The new governance model adopted by the Falkirk Fund and the collaborative work with Lothian is likely to lead to discussions as to whether mandates need to be delivered by external managers or whether they could be undertaken more cost effectively in house.

- 2018/19 is expected to see an acceleration in the deployment of capital in relation to the Fund's Affordable Housing mandate with new sites having been identified by the by the manager.

- A more detailed review of market conditions in 2017/18 can be found on Page 44.

Trends and Influences – Governance

- The local authority elections of May, 2017 led to a change in the composition of the Pensions Committee. Further changes were required following the untimely death of Councillor Tom Coleman who had been Convener of the Committee. New members of the Committee during the year either attended an induction training session in August, 2017 or received an individual briefing on Fund activities from the Pensions Manager.

- Training arrangements for Committee and Board members will continue to be addressed to enable appropriate knowledge and understanding obligations to be met.

- The Fund has entered into a collaborative arrangement with the Lothian Pension Fund to align the investment governance of the two funds. Under the new arrangements, the Pensions Committee agree investment strategy but delegate implementation of the strategy, including selection of investment managers, to the Chief Finance Officer on the basis of specialist advice being given by a Joint Investment Strategy Panel (JISP).

- The JISP consists of FCA accredited officers and specialist external advisers. The JISP meets on a quarterly basis with the first meeting having taken place in July, 2017. A verbal update of JISP business is provided to each Committee and Board meeting by the Chief Finance Officer.

- Nationally, discussions have continued to take place between the Scheme Advisory Board and Scottish Ministers regarding a suitable structure for the Local Government Pension Scheme in Scotland. Fund mergers and/or greater collaborative working are some of the options being considered. A stakeholder consultation is scheduled to be conducted during 2018 to inform the decision making process.

Environmental, Social and Corporate Governance Responsibilities

Statement of Investment Principles

The Fund's approach to Environmental, Social and Corporate Governance (ESG) matters is set out in its Statement of Investment Principles (SIP).

The SIP contains the Fund's investment beliefs, being the high level basis on which investment decisions are made. The SIP also emphasises the Fund's commitment to key issues such as human rights and the environment as well as its preference to engage with companies on corporate governance matters rather than to disinvest.

The Fund recognises that the importance of monitoring ESG risks given their capacity to cause reputational damage and impact asset values.

The Fund requires its managers to take cognisance of the SIP when constructing portfolios and to report regularly on the extent of their corporate engagement. All managers have confirmed their commitment to advancing the principles of the UK Stewardship Code.

Pensions and Research Consultants Ltd (PIRC)

To support its ESG commitments, the Fund has engaged the Pensions and Investment Research Consultants (PIRC) to provide advice and research information on all matters pertaining to corporate governance and to act as voting agents for the Fund. Motions where PIRC have consistently lodged "oppose" votes in 2017/18 include those involving director time constraints, executive pay, share buy backs and auditor rotation.

Local Authority Pension Funds Forum

The Fund considers that an effective way to exert influence on ESG matters is through membership of the Local Authority Pension Funds Forum (LAPFF). LAPFF acts for around 70 UK pension funds and seeks to promote high corporate standards amongst investee companies. Recent LAPFF campaigns to change corporate behaviour have included executive pay, gender equality in boardrooms and fossil fuel emissions.

More information about the work of the LAPFF can be found at www.lapfforum.org. More information about Corporate Governance matters can be found on Page 46 of this report.

Impact Investment

In recognition of the lack of affordable housing in the UK and the benefits of property diversification, the Pensions Committee agreed in 2014 to make an investment in social and affordable housing. Following a tendering process, Hearthstone Investments were appointed to manage a £30m commitment.

The initiative, which has been supported by the Scottish Government, is aiming to produce a return of 7% p.a. over a 10 year period and is in the process of delivering around 190 social housing units across the Fund area. Affordable housing units in Bo'ness, Rutherglen, Aberdeen, Dalkeith and Haddington now form part of the portfolio.

The Fund also invests in a range of infrastructure assets many of which are located in the UK and which help the UK economy to function. These include investments in transport, renewable energy (wind, hydro and solar assets), utilities as well as elements of social infrastructure such as student accommodation, schools and hospitals.

Staffing Resources

The Pension Section's staffing compliment at 31/03/18 was as follows:-

Senior Officers

	No. of Male FTEs	No. of Female FTEs
Pensions Manager	1	0

Administration Officers

	No. of Male FTEs	No. of Female FTEs
Pension Officers	1	1
Pension Support Officer	0	1.2
Trainee Pension Officer	0	1

Pension Assistants	2	5.8
Clerical Assistant	0	0.5

Investment and Accounting Officers

	No. of Male FTEs	No. of Female FTEs
Fund Accountant	0	1
Accounting Assistant	0	0.4

FTE –Full Time Equivalent

The above resource is supplemented by a shared service Resourcing Agreement between the Fund and the City of Edinburgh Council/Lothian Pension Fund to provide additional investment expertise.

In view of ongoing financial pressures, it is Council policy that generally new appointments, including appointments to the Pension Fund, are made on a temporary basis. The prevalence of temporary staff is an issue that is expected to be addressed during 2018/19.

Director's Report

In respect of the Fund's senior officers, no absences have been recorded. No personal data incidents or other material absences were recorded during 2017/18.

There is no need for the Pension 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 25a of the Accounts.

....	20/9/18
Convener of Pensions Committee	**Date**
....	20/9/18
Chief Executive	**Date**
....	20/9/18
Chief Finance Officer	**Date**

The Local Government Pension Scheme

The Local Government Pension Scheme (Scotland) is a statutory pension scheme. This means that it is very secure as its benefits are defined and set out in law. Under Regulation 55 of The Local Government Pension Scheme (Scotland) Regulations 2014, all LGPS Funds are required to publish an Annual Report.

This document is the Annual Report of the Falkirk Council Pension Fund for 2017/18.

The Local Government Pension Scheme (LGPS)

- The Local Government Pension Scheme is a nationwide pension arrangement for persons working in local government and is one the largest public sector pension schemes in the UK with over 4 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 Local Government Pension Scheme (Scotland) is the version of the Scheme which applies to local authorities in Scotland. Similar but separate versions of the Scheme 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 Council Pension Fund.

- Unlike other public sector schemes, the LGPS is a funded scheme, which means that monies have been set aside to pay for future benefits as they fall due. This helps to reduce the potential costs falling on future generations of tax payers.

- The Scheme provides a range of high quality inflation linked benefits based on members' salaries and their years' of scheme membership. Unlike other forms of pension provision, benefits do not depend on investment performance.

- Prior to 1 April, 2015, benefits in LGPS (Scotland) were calculated on a "Final Salary" basis. From 1 April, 2015, scheme benefits are being calculated on a "Career Average" basis with pre-April 2015 rights being fully protected on the final salary basis. For more information about LGPS 2015, please visit www.falkirkpensionfund.org or www.scotlgps2015.org.

lgps look forward with confidence

LGPS2015

Governance

Overview

Falkirk Council is the **Administering Authority** of the Falkirk Council Pension Fund and is responsible for ensuring that pension fund business is conducted in accordance with the law and proper standards, and that monies originating from scheme members and from the public purse are safeguarded and properly accounted for.

Governance arrangements are prescribed by legislation and underpinned by the **Annual Governance Statement** and the **Governance Compliance Statement**. Details of the Fund's approach to Governance can be found in the Governance Policy. Governance arrangements are periodically reviewed and subject to consultation with stakeholders to ensure they remain relevant and effective.

Falkirk Council has delegated its pensions function to the Pensions Committee, with certain operational activities being delegated to the Chief Finance Officer. Pension Fund activities are overseen by a Pension Board that has been set up to comply with the requirements of the Public Service Pensions Act 2013. The Committee is required to meet on not less than a quarterly basis. During 2017/18, the Committee held four meetings, all of which were joint meetings with the Pension Board.

Annual Governance Statement

The Local Authority Accounts (Scotland) Regulations 2014 require that all Councils conduct a review, at least once in each financial year, of the effectiveness of the system of internal control and that an Annual Governance Statement is included in the Annual Accounts. Falkirk Council has complied with both of these requirements voluntarily for some years now, underlining a commitment to openness and transparency.

The Annual Governance Statement in respect of 2017/18 is set out in full on page 93.

Governance Compliance Statement

Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2014 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.

The Fund's Governance Compliance Statement is set out in full on page 98.

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 on a quarterly basis with meetings being held mainly in public session. Members of the Committee are as follows:

Councillor Adanna McCue (Convener)	-	Elected Member (Falkirk Council)
Councillor Jim Blackwood	-	Elected Member (Falkirk Council)
Councillor William Buchanan	-	Elected Member (Falkirk Council)
Councillor Niall Coleman	-	Elected Member (Falkirk Council)
Councillor John Patrick	-	Elected Member (Falkirk Council)
Councillor Pat Reid	-	Elected Member (Falkirk Council)
Councillor Donald Balsillie	-	Employer Rep. (Clackmannanshire Council)
Mr Ian McLean	-	Pensioner Rep.
Mr Andy Douglas	-	Trade Union Rep.

In Autumn 2017, Councillor Tom Coleman, who had been appointed Committee Convener following the May local government election, sadly passed away. Former Convener, Councillor John Patrick resumed the role on an interim basis with Councillor Adanna McCue being appointed in early 2018.

Other changes arising from the May election saw Councillors C Campbell, S Carleschi, C Martin and CR Martin all leave the Committee with their places being taken by Councillors W Buchanan, A Drummond, A McCue and P Reid. Councillor Drummond subsequently resigned from his position and was replaced by Councillor Balsillie. Following a by–election in February, 2018, the late Councillor Coleman's seat on the Committee was taken up by Councillor Niall Coleman.

The Committee's key responsibilities are:-

- to oversee the administration of the Fund
- to establish and review investment beliefs, policies and strategy
- to ensure the suitability and adequate diversification of investments
- to set the strategic asset allocation and individual manager benchmarks and targets
- to consider reports from the Chief Finance Officer on implementation of strategy
- to take proper advice in relation to investment matters
- to formulate and monitor a funding policy for the Fund
- to agree a 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 Auditors were also in regular attendance during 2017/18. Attendance at the quarterly meetings is recorded in the Council Minutes.

Details of Committee members who are also members of the Scheme is given on Page 91.

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. in this case 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 Trades 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 2014. The Board generally meets in conjunction with the Pensions Committee but can choose to meet on its own.

The Trades Union members are drawn from the four main Unions representing Scheme members, namely Unison, Unite, GMB and UCATT. The four employer representatives are drawn from the largest Fund employers not already represented on the Pensions Committee.

Board Members during 2017/18 were as follows:

Mr Simon Hunt (Chair)	-	Employer Rep. (Scottish Autism)
Councillor Margaret Brisley	-	Employer Rep. (Stirling Council)
Mr Ed Morrison	-	Employer Rep. (SCRA)
Mrs Jennifer Welsh	-	Employer Rep. (SEPA)
Mrs Susan Crook	-	Union Representative
Mr Sandy Harrower	-	Union Representative
Mr Gordon Irvine	-	Union Representative
Mr Tommy Murphy	-	Union Representative

Councillor Donald Balsillie who was a member during 2016/17 left the Board following the May 2017 Local Government Elections and was replaced by Councillor Margaret Brisley from Stirling Council.

Details of Board members who are also members of the Scheme is given on Page 91.

Training for those with Governance Responsibilities

The Fund's training policy recognises that those persons 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.

Various seminars, conferences and in-house training events have been made available for Committee and Board members to attend. During 2017/18, these have included:

17/08/2017 – Induction Training – Council Offices, Falkirk
31/10/2017 – Joint Investment Seminar with Lothian Fund - COSLA Offices, Edinburgh
21/11/2017 – National LGPS Training - COSLA Offices, Edinburgh

Further insight has been provided during the year through the attendance of Pensions Specialists (i.e. actuary and investment adviser) at the Committee and Board meetings.

Training arrangements for 2018/19 will continue to be broadly based in order to support member decision making.

Conflict of interests

A conflict of interest occurs where there is the existence of a financial or other interest which is likely to prejudice the way a person exercises their functions as a member of the Committee or Board but 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 is set out in the Fund's Conflict of Interest Policy.

There is a standing agenda item at each Pensions Committee or Board meeting for Members to declare such interests. Any declarations are minuted.

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 2017/18, the Fund responded to 23 Freedom of Information requests, the majority of which related to the composition of the Fund's assets.

Data Security

Falkirk Council Pension Fund is responsible for a considerable volume of personal data and sensitive information. The Fund aims to comply with the Information Security Policy adopted by Falkirk Council and in doing so, have the following arrangements in place to safeguard this data:

- All 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 paper records are being converted to electronic images, paper records are securely destroyed
- Encrypted laptops are provided to staff who work away from the office, as part of their regular role or as part of our business continuity plan
- Where data has to be transferred off site we use either secure FTP, VPN, or password protection
- Our administration system complies with the standards contained in ISO/IEC 27001 information security management
- We have Data Processing Agreements in place with our third party processors

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 collect personal data, with whom they share data and the length of time for which that data is retained.

The Fund also aims to exchange a Memorandum of Understanding with each of our constituent fund 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.

Communications

Communication with stakeholder groups is achieved through emails, publication of committee minutes, newsletters, payslip messaging and the pension fund website. The range of topics covered includes actuarial matters, benefits and regulatory changes, investment performance and investment manager/adviser presentations.

The following documents can be viewed or downloaded from the Falkirk Council Pension Fund website at www.falkirkpensionfund.org:

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

More Information

Paper copies of the **Statement of Investment Principles**, the **Funding Strategy Statement** and the **Governance Policy** document can be requested from the Chief Finance Officer, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS.

Scheme Operations (incl. Administration)

Outline

The aim of the Pensions Section is to provide an efficient and cost effective administration service that meets stakeholders' needs.

The Section has 16.5 full-time equivalent posts and is headed by the Pensions Manager, who reports directly to the Chief Finance Officer. In addition to benefits administration, staff members undertake governance, accounting and investment related activities.

The Section is made up as follows:

Role	Nos.	Average Years of Pensions Service	Pensions/Financial Qualification
Pensions Manager	1	35 years	Yes
Fund Accountant	1	3 years	Yes
Pensions Officers	2	32 years	Yes (1)
Pensions Officer (vacant)	1	-	-
Pensions Support Officer	1.2	14 years	Yes (1)
Accounting Assistant	0.4	14 years	No
Accounting Assistant (vacant)	0.6	-	-
Trainee Pensions Officer	1	4 years	Yes
Pensions Assistants	7.8	7 years	No
Clerical Assistant	0.5	4 years	No
Total	16.5		

The intention is to fill the vacant posts during 2018/19.

Activities

The principal activities of the Pensions Section are:

- to support the Pensions Committee and Pensions Board
- to implement the Fund's investment strategy
- to manage and oversee the investment of Fund monies
- to implement the Fund's funding strategy
- to prepare and monitor Pension Fund Budget
- to prepare Pension Fund Accounts
- to maintain accounting records
- to undertake all Fund administration obligations, including the collection of contributions and the payment of benefits
- to provide information, guidance and communications material to Fund stakeholders

Service Planning
The Section's operations fall within the terms of the Service Plan for Corporate and Housing Services.

Professional Development
The members of staff who work for the Fund are its greatest assets and are valued accordingly.

The Fund invests in the on-going development of its staff for the benefit of stakeholders and the Fund overall.

Equality and Diversity
It is the policy of Falkirk Council to ensure that all its employees are selected, trained and promoted on the basis of their ability, the requirements of the job and other similar non-discriminatory criteria. All employment decisions are based purely on relevant and objective bases.

We aim to deliver accessible, high-quality and value for money services to all our customers, without discrimination on grounds of group memberships; for example sex, race, disability, sexual orientation, religion, belief or age.

Systems
All Pensions Section staff have access to up to date computer hardware and operating systems. In addition to normal desktop software, the range of services provided by the Section requires it to have access to the following systems:

System	Database	Purpose
Pensions Administration System (Altair)	Web Based	Pensions Administration and Pensioner Payroll
Integra	Oracle	Financial Information System
Passport (Northern Trust)	Web Based	Custodian Information
Clydesdale Bank	Web Based	Fund Banking Information

To improve resilience a number of Pensions Section staff have been equipped with laptops as part of contingency arrangements and to facilitate more flexible working arrangements.

Asset valuations are available to the Pensions Section via the Passport application of Fund Custodian, Northern Trust. This is complemented by the web based applications of the Fund's investment managers allowing up to date valuations and reports to be obtained.

Pension Section Budget

A summary of the Pension Section's administrative expenditure for 2017/18, together with the approved budget for 2018/19, is shown in the table below.

The budget focuses on controllable expenditures and thus excludes benefit payments and transfers of pensions from the Fund. Similarly, income does not include contributions receivable and pension transfers to the Fund.

Pension Fund	Budget 17/18	Actuals 17/18	Variance 17/18	Budget 18/19
Benefits Administration				
Employee Expenses	435,710	379,262	(56,448)	461,700
IT Costs	261,830	270,702	8,872	263,830
Other	102,460	99,121	(3,339)	102,470
Total	**800,000**	**749,085**	**(50,915)**	**828,000**
Oversight and Governance Costs				
Employee Expenses	130,420	109,245	(21,175)	138,950
Shared Service - Lothian	168,000	157,804	(10,196)	178,000
Actuarial Fees	100,000	91,310	(8,690)	90,000
Tax Advice and Legal Fees	113,150	56,745	(56,405)	102,840
Investment Advisory	70,000	29,716	(40,284)	70,000
Performance Measurement	20,000	16,042	(3,958)	90,000
Other	54,190	41,963	(12,227)	51,710
Total	**655,760**	**502,825**	**(152,935)**	**721,500**
Investment Management				
Managers Fees	6,069,000	4,960,531	(1,108,469)	5,895,500
Custodian Costs	140,000	126,062	(13,938)	125,000
Aborted Deal Costs	150,000	0	(150,000)	100,000
Other	5,000	(1,722)	(6,722)	5,000
Total	**6,364,000**	**5,084,871**	**(1,279,129)**	**6,125,500**
Pension Fund Total	**7,819,760**	**6,336,781**	**(1,482,979)**	**7,675,000**

The main variances between budgeted and actual amounts relate to:

- Employee Expenses - underspend due to delay in recruiting to new posts
- Tax Advice – underspend due to a reduction in foreign tax filing queries
- Investment Advisory – underspend due to lower costs under new governance model
- Manager Fees - underspend arising from discounts negotiated with managers
- Abort Costs - underspend due to absence of failed bids with abort costs

Changes have been made to the 2018/19 budget as follows:

- an increase in Benefits Administration costs to meet the costs of expected pay award
- an increase in Oversight and Governance costs to fund an enhanced performance measurement tool
- a decrease in Investment Management costs following re-negotiation of fees

Review of 2017/18 Administration

Scheme Structure

Pensions administration in 2017/18 continued to be impacted by the important changes made to the Scheme on 1 April, 2015. These included:

- Scheme operating on a Career Average Re-valued Earnings (CARE) basis
- Normal Pension Age being aligned with each member's own State Pension Age
- Membership rights to 31 March 2015 protected on a Final Salary basis
- Transitional protection for those closest to retirement
- Scheme governance including a national Scheme Advisory Board and local Pension Boards

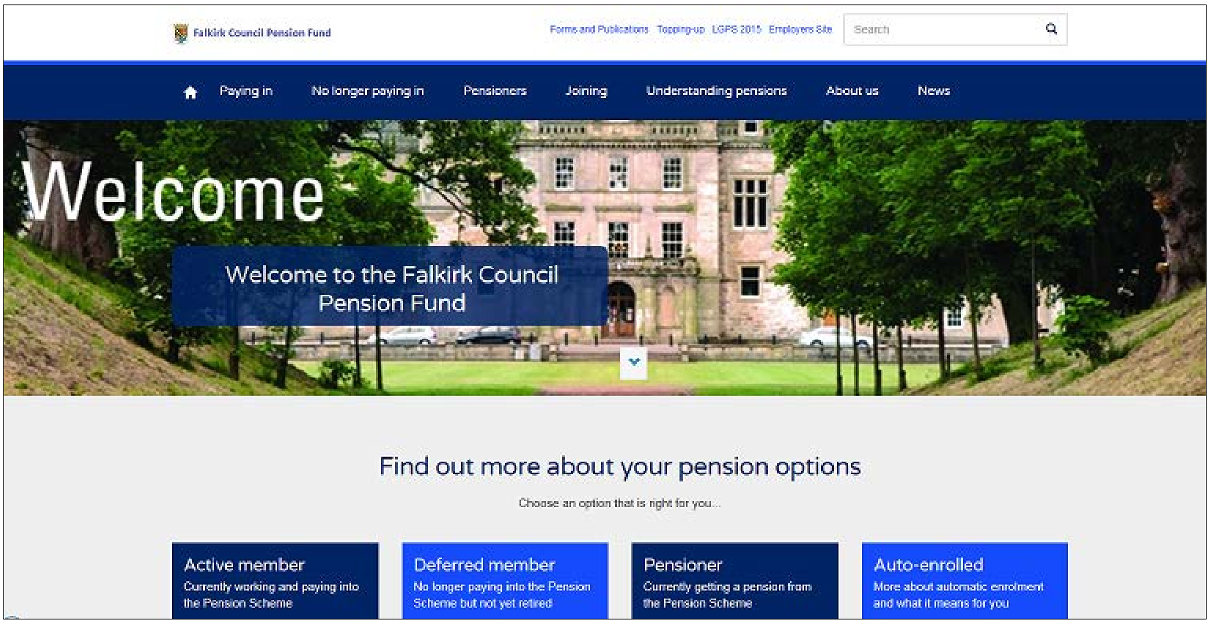
To facilitate compliance with the new benefit structure, the Fund uses the Altair Pensions Administration System which is used widely across the UK.

Other Miscellaneous

No material changes to scheme rules have taken place during 2017/18, however new regulations permitting members age 55 or over to retire without requiring employer consent is scheduled to come into effect from June, 2018.

Online services

We have our own website at www.falkirkpensionfund.org. The website is split into areas for active, deferred and retired scheme members, as well as containing News and Publications Sections containing guides and information about a range of scheme features.



Analysis of Membership

Membership numbers are most commonly affected by persons joining or leaving the Scheme as part of normal staff turnover. From time to time, however, there can be more significant membership movements resulting from factors such as economic circumstances, staff transfers, and Government initiatives.

The balance of membership between non-pensioners and pensioners is an important indicator of the maturity of the Fund in terms of whether the Fund can continue to pay benefits from its regular contribution inflow or whether it may be forced to sell assets in order to pay on-going benefits.

All membership types – active, deferred and pensioners – showed an increase in numbers during the year. This has led to a marginal but relatively insignificant maturing of the Fund's membership profile.

The influx of new active members in the past 2 years is consistent with employers contractually enrolling all new entrants in compliance with workplace pension arrangements. Pensioner numbers continue to be driven by the challenging financial environment facing local authorities and their various early retirement initiatives.

Split of Membership between Actives, Deferreds and Pensioners

	2013/14	2014/15	2015/16	2016/17	2017/18
Active	**14,690**	**14,589**	**14,595**	**14,847**	**15,271**
Deferred	**5,320**	**5,405**	**5,430**	**5,577**	**5,831**
Pensioner	**8,693**	**8,995**	**9,374**	**9,834**	**10,242**
Total	**28,703**	**28,989**	**29,399**	**30,258**	**31,344**

Maturity Level (% of Deferred & Pensioner Members to Total Members)	**49.67%**	**50.36%**	**50.93%**	**51.28%**

Split of Membership between Scheduled and Admission Bodies

	2013/14	2014/15	2015/16	2016/17	2017/18
Scheduled	**26,055**	**26,160**	**26,311**	**26,933**	**27,919**
Admission	**2,648**	**2,829**	**3,088**	**3,325**	**3,425**
Total	**28,703**	**28,989**	**29,399**	**30,258**	**31,344**

Risk Management

Overview

Pension fund management is not immune from risk. This may be the risk faced by the Fund as an investor through Fund Manager ineptitude or corporate malpractice, or it may be related to the Fund's administrative functions in which case the risks may relate to systems failures or regulatory breaches. Whilst it is not possible to eliminate risk completely from day to day activity, the nature of risk has been evaluated and strategies put in place to minimise the adverse effects. These are set out in the following documents:

- the Pension Fund Risk Register
- the Fund's Statement of Investment Principles
- the Corporate Risk Management Policy and Framework
- the Corporate and Housing Services (Finance) - Business Continuity Recovery Plan

Risk Register

The Pension Fund Risk Register and the Statement of Investment Principles identify the risks related to the Fund's administrative and investment functions. The Corporate Risk Management Policy and Framework describes the strategic risk environment within which the Fund operates. The Corporate and Housing (Finance) Business Continuity Plan describes the more detailed arrangements that are in place in the event of emergency situations occurring.

The Pension Fund Risk Register is a standing item at the quarterly meetings of the Pensions Committee and Pension Board. Individual risks and proposed mitigations are identified by the Chief Finance Officer and Pensions Manager with the support of Fund Advisers. The areas of greatest risk identified were as follows:

- Funding position affected by falling asset values or falling bonds yields
- Investment Strategy may be inappropriate
- Failure to meet statutory deadlines
- Members' confidential data is lost or made public
- Investment Managers may not have appropriate control framework in place
- Committee and Board members have inadequate knowledge and understanding
- Staff unable to perform duties due to systems failure

Climate change has been identified by the Fund as a particular risk to asset valuations. The Fund manages this firstly by engaging with its Investment Managers to ensure they are challenging investee companies on their climate change strategies and secondly by being part of the Local Authority Pension Funds Forum where the collective voting strength of over 70 funds can be used to influence corporate policy. Ultimately, if companies do not demonstrate a robust approach to managing this risk, the Fund reserves the right to disinvest.

Investment Risk

The various types of investment risk to which the Fund is exposed is set out in the Statement of Investment Principles. These risks include price risk, currency risk, counterparty risk, interest rate risk and inflation risk. **The Statement of Investment Principles** is updated whenever there is a material change in investment strategy.

Decisions taken during 2017/18, including a reduction in the strategic allocation to equities, a commitment to private debt and an increased commitment to infrastructure are designed reduce investment risk and the Fund's exposure to more volatile assets.

A key governance risk faced by the Fund is ensuring the responsible stewardship of its assets by each of its external Fund managers. Reassurance is sought through regular meetings with the managers, through dialogue with the Fund's investment advisor and through obtaining the managers' audited compliance and control reports.

Details of the control reports (or equivalent) obtained in 2017/18 are as follows:

Fund manager	Type of assurance	Control Framework	Compliance with controls	Reporting accountant
Aberdeen Asset Management	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable assurance	PWC LLP
GCM Customised Fund Investment Group	SOC 1	Reasonable assurance	Reasonable assurance	EY LLP
Legal & General	AAF 01/06/ISAE3402	Reasonable assurance	Reasonable assurance	PWC LLP
State Street (M&G)	SOC 1	Reasonable assurance	Reasonable assurance	EY LLP
Newton Investment Management	ISAE3402/SSAE16	Reasonable assurance	Reasonable assurance	KPMG LLP
Schroder Investment Management	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable assurance	PWC LLP
Aberdeen Standard Investments (SL Capital Partners)	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable assurance	KPMG LLP
Baillie Gifford	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable assurance	PWC LLP
IPES (fund administrator for Ancala)	AAF 01/06	Reasonable assurance	Reasonable assurance	Deloitte LLP
Dalmore Capital	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable * assurance	PWC LLP
UBS (Greensands)	ISAE 3402	Reasonable assurance	Reasonable assurance	EY LLP

*Reasonable assurance in all material respects

Investment risk is covered in some detail in the Financial Statements. As a consequence, Committee and Board are reminded of these types of risk when considering separately the unaudited and audited accounts. The investment risk information is located in Note 18.

The Fund also complies with the six revised Myners' principles. Details of this are included in the Statement of Investment Principles.

Investment Policy and Performance

Investment Overview

The Fund invests fund monies in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010. The Fund's investment advisers are Hymans Robertson LLP and the Joint Investment Strategy Panel.

The Fund's investment policy is set out in its Statement of Investment Principles.

During 2017-18, the following investment managers managed the Fund's assets:

Manager	Mandate(s)
Aberdeen Standard	i) Global Equities - Active ii) European Private Equity
Ancala Partners	UK Infrastructure
Baillie Gifford	i) Global Fixed Income – Active ii) Diversified Growth
Dalmore Capital	UK Infrastructure
Equitix Investment Management Ltd	UK Infrastructure
FIM Harburnhead LP	UK Infrastructure
Grosvenor Capital	Global Infrastructure
Harbert Management Corporation	US Infrastructure
Hearthstone Investments	UK Affordable Housing
InfraRed Capital Partners Ltd	UK Infrastructure
KKR	UK & European Infrastructure
Legal & General (L&G) Investment Management Ltd	i) Global Equities - Passive ii) Global Equities - Fundamental Weighting
M&G Investments	UK Private Debt
Newton Investment Management	Global Equities – Active
Schroder Investment Management	i) UK Equities – Active ii) UK Property
UBS / Greensands	UK Infrastructure
Wilshire Associates	Global Private Equity

Manager returns are measured against various benchmarks, the main ones being:

Manager	Mandate
Aberdeen Standard / Newton	MSCI All Countries World Index
Baillie Gifford Bonds	Customised UK Fixed Interest Benchmark
Baillie Gifford Diversified Growth	UK Bank of England Base Rate
Legal & General (L&G) Passive	Customised Global Equities Benchmark
Schroder UK Equities	FTSE All Share Index
Schroder Property	AREF/IPD UK Quarterly Property
UK Infrastructure (various managers)	Retail Price Index

Investment Strategy

The Fund's investment objective is to hold a broad range of assets, balancing risk and reward, and managing the assets prudently and effectively in order to minimise the burden of costs falling on employers and tax payers.

The Fund's strategic asset allocation, being the broad balance between growth and defensive assets, is the most significant driver of Fund returns and risk.

The current investment strategy has its origins in 2012 when it was agreed that the Fund should further diversify its traditional asset base of equities, property and bonds to include alternative assets such as infrastructure and an allocation to diversified growth.

A more recent review in 2015 concluded that the Fund's investment strategy should be consistent with achieving and maintaining a "steady state" scenario of full funding and contribution rate affordability. As market opportunities arise and funding levels permit, the Fund will therefore look to reduce its exposure to growth assets and increase its holdings of defensive assets. The table below gives a comparison of the Fund's strategic allocation of Fund Assets as at 31 March 2018 and the longer term aspirational allocation:

Asset Class	Strategic Allocation at 31/3/2018	Projected Long Term Strategic Allocation
Growth Assets	**75%**	**50%**
Listed Equities	55%	25%
Private Equity	0%	0%
Diversified Growth	10%	10%
Property	10%	15%
Defensive Assets	**25%**	**50%**
Bonds	10%	20%
Private Debt	5%	5%
Infrastructure	9%	9%
Affordable Housing	1%	1%
Other Real Income Assets	0%	15%
Totals	**100%**	**100%**

The longer terms strategic allocation reflects where the Fund would wish to be should the funding level continue to improve and the need for investment in riskier assets recedes. It is recognised that a period of up to 5 years or more may be needed to transition to the long term allocation.

A further review of strategy is scheduled for autumn of 2018. Strategy is decided by the Pensions Committee who are advised by the Chief Finance Officer and the Joint Investment Strategy Panel, the latter consisting of FCA Accredited Officers and Independent Specialist Advisers.

Current Positioning

In spite of the significant allocation to alternatives, the sustained bull run in equity markets coupled with sterling's depreciation against major overseas currencies has led to the Fund continuing to be significantly overweight to equities. The table below shows the actual asset allocation at 31 March 2018 against the strategic allocation.

Asset Class	Actual Allocation at 31/3/2018	Strategic Allocation at 31/3/2018	Overweight / Underweight Position
Growth Assets	**80.3%**	**75%**	**+5.3%**
Listed Equities	60.6%	55%	+5.6%
Private Equity	2.7%	0%	+2.7%
Diversified Growth	10.4%	10%	+0.4%
Property	6.6%	10%	-3.4%
Defensive Assets	**19.7%**	**25%**	**-5.3%**
Bonds	7.8%	10%	-2.2%
Private Debt	0.1%	5%	-4.9%
Infrastructure	6.6%	9%	-2.4%
Affordable Housing	1.0%	1%	-
Cash	4.2%	0%	+4.2%
Totals	**100%**	**100%**	**-**

The Pensions Committee recognises that the Fund is at variance with its strategic allocation in respect of certain asset classes. The Committee is content with this position noting that the imminent review of investment strategy may result in a resetting of asset class weightings.

The overweight position in listed equities reflects the Fund's current strategy of seeking to generate positive returns to reduce its deficit. As the funding levels improve, the argument for holding the overweight position will be less compelling.

Although the Fund is currently overweight in Private Equity, the holding is gradually being run down in line with the agreed strategy and no new commitments being made.

The Fund is continuing to build its infrastructure portfolio working in collaboration with the Lothian Pension Fund to source, evaluate and execute deals.

A commitment to invest with a new Private Debt manager was made in March, 2018. This will help move the actual Private Debt allocation in the direction of the 5% strategic allocation.

The overweight position in cash is partly a defensive measure following the market correction of January/February, 2018 and partly a desire to retain dry powder pending the outcome of the strategic review.

The Fund's cash holdings are split between the custodian bank Northern Trust and various financial institutions. Further details can be found in the Note 18, page 82.

Implementation of Strategy and Investment Monitoring

Under new governance arrangements, responsibility for implementing investment strategy rests with the Chief Finance Officer who takes advice from the Joint Investment Strategy Panel. The Panel consists of FCA accredited officers as well as independent external investment specialists.

The Chief Finance Officer and the Joint Investment Strategy Panel meet regularly (and at least quarterly) to implement the strategy and to review outcomes. The Pensions Manager also attends these meetings.

In keeping with Regulation 10 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) 2010 (SSI 2010/233) which requires the monitoring of investment managers' performance each quarter, the internal teams at Falkirk and Lothian:

- analyse the manager reports, and
- conduct manager meetings or conference calls

Reports on each mandate are then compiled using a traffic lights system and then passed to the Joint Investment Strategy Panel for wider consideration. The reporting process highlights issues and concerns across a range of areas, including portfolio activity, portfolio construction, portfolio risk and return as well as the wider business operations of the managers.

Investment Performance

The Fund's total returns over the short, medium and long term are set out below.

	2017/18 %	3 years % per annum	5 years % per Annum	Inception % per Annum*
Fund Return	3.1	7.9	8.8	7.7
Benchmark Return	2.5	6.8	7.7	7.2
Excess	0.6	1.1	1.1	0.5

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

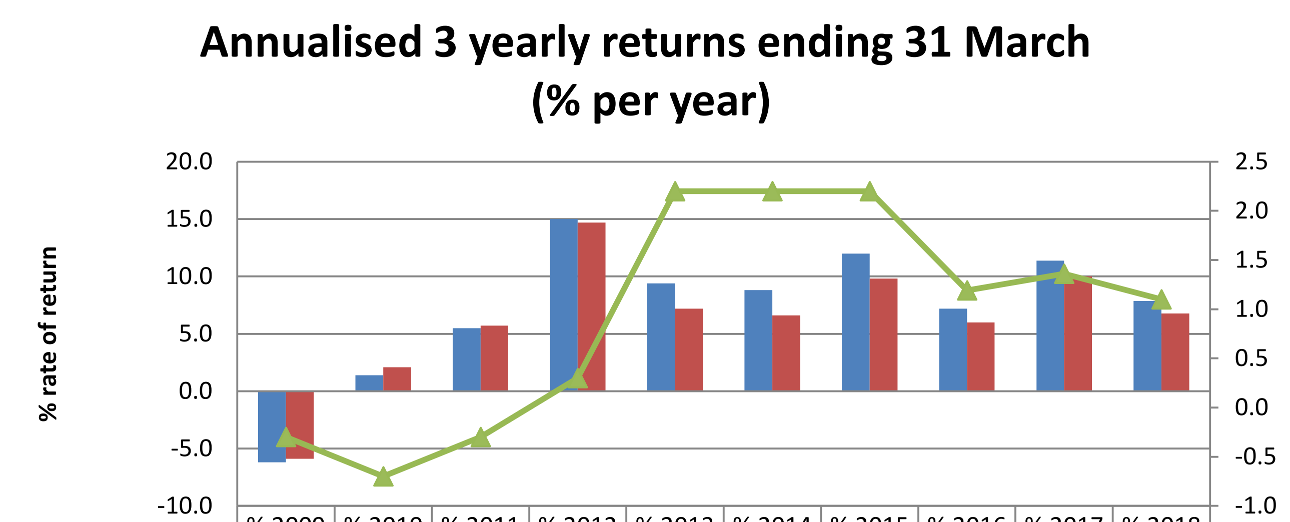
The Fund's performance remains ahead of benchmark across all time periods.

The table below compares Fund returns with an indicator of inflation.

	2017/18 %	3 years % per annum	5 years % per annum	Inception % per annum*
Fund Return	3.1	7.9	8.8	7.7
Retail Price Index	3.2	2.2	1.6	2.0
Consumer Price Index	2.5	1.8	1.4	2.2
National Average Earnings	2.3	2.3	2.5	3.0

* Inception date 30/09/2001

The Fund's historic performance is further illustrated by the following graphic which sets out the 3 year rolling average returns over the past 10 years. The chart shows that there has been significant volatility of returns over the past decade covering in particular the global financial crisis of 2008/09 and subsequent resurgence in asset values.



	% 2009	% 2010	% 2011	% 2012	% 2013	% 2014	% 2015	% 2016	% 2017	% 2018
Fund	-6.2	1.4	5.5	15.0	9.4	8.8	12.0	7.2	11.4	7.9
Benchmark	-5.9	2.1	5.7	14.7	7.2	6.6	9.8	6.0	10.0	6.8
Relative	-0.3	-0.7	-0.3	0.3	2.2	2.2	2.2	1.2	1.4	1.1

Manager Returns

The Fund's managers had the following performance against benchmark over 2017/18:

Fund Manager	Mandate	1 Year %	Benchmark %	Excess %
Aberdeen Standard	Global Equities – Active	2.4	2.9	-0.5
Baillie Gifford	Fixed Interest	1.5	1.0	+0.5
Baillie Gifford	Diversified Growth	5.3	0.3	+5.0
Hearthstone	Affordable Housing	-1.0	5.3	-6.3
Legal & General	Global Equities – Passive	2.6	2.6	0.0
Legal & General	Fundamental Weighting	1.3	1.2	+0.1
Newton Inv. Mgmt Ltd	Global Equities – Active	0.0	2.4	-2.4
Schroder Inv. Mgmt Ltd	UK Equities – Active	2.8	1.3	+1.5
Schroder Inv. Mgmt Ltd	Property	10.5	10.0	+0.5
Alternatives *	Private Equity/Infrastructure	4.9	-1.0	+5.9

* Alternatives include UK Infrastructure, Global Infrastructure and Private Equity

Comments on 2017/18 Manager Performance

- The overall Fund return of 3.1% in 2017/18 was underpinned by strong absolute performances from Property, Diversified Growth and the Alternatives mandates with creditable performances from the UK Equities and Bonds. Global Equity managers struggled to keep up with their respective benchmarks.

- One year is a very short period over which to measure manager performance. When reviewing mandates the Committee will always consider longer term performance (e.g. over a complete economic cycle).

- Following its very strong absolute performance of 2016/17 when it delivered a return of 30%, **Aberdeen Standard** was marginally behind its benchmark in 2017/18. Long term performance also lags the benchmark, a situation that is reviewed regularly by the Joint Investment Strategy Panel. 2017/18 has also seen the clarification of senior investment management roles in Aberdeen Standard following its merger with Standard Life.

- **Baillie Gifford's** fixed interest mandate generated a 1.5% return for the Fund outperforming the benchmark by 0.5%. Returns over 3 and 5 years have been around 5% and marginally ahead of the benchmark. In a climate of potentially higher interest rates (and therefore lower bond prices) and central banks looking to reduce the amount of bonds on their balance sheet, the manager is cautious about the outlook for the coming months. The mandate seeks to exploit market inefficiencies in areas of stock selection as well as interest rate and currency strategies. The Fund holds fixed interest securities for their defensive characteristics.

- The Fund also invests in **Baillie Gifford's Diversified Growth Fund**, whose objective is to achieve equity-like returns but with lower-than-equity levels of volatility. The mandate returned over 5% during the year comfortably ahead of its target objective of the UK base rate (i.e. its benchmark) plus 3.5%. The manager invests in a broad range of asset classes including equities, bonds and property.

- The **Hearthstone** affordable housing mandate remained significantly behind its benchmark. A new management team at Hearthstone have continued to find it challenging to source attractive deals. Transactions costs and accounting methodology for affordable properties have weighed heavily on returns. Recent contact with managers has proved more positive with several new sites identified and being actively considered for investment.

- Returns from the **Legal and General Market Cap Passive** mandate were in line with their benchmark as one would expect.

- Returns from the **Legal and General Fundamental Weighting** mandate were marginally ahead of benchmark. 2017/18 was the first full year of the mandate being in operation. This is a rules based mandate with the size of constituent holdings being determined according to a qualitative rating rather than being based on market cap weighting. The approach is sometimes referred to as "smart beta".

- Having delivered strong absolute numbers in 2016/17, the **Newton** mandate was unable to add any meaningful return during 2017/18, lagging its benchmark by just over 2%. Longer term return which is a better measurement of performance shows that the manager has achieved an annualised return of around 10% since 2006 – ahead of its benchmark. The manager seeks to identify long term global themes (e.g. technology, ageing populations) to inform its stock selections. The manager continues to have concerns about the levels of global debt and holds a significant level of cash as a defensive measure which is a drag on performance.

- The **Schroder** UK Equities mandate, which pursues a value based investment style, achieved a 2.8% return in 2017/18, ahead of benchmark. Returns across all time periods have exceeded benchmark (e.g. 9.0% p.a. absolute return v 6.8% benchmark over 5 years) endorsing both manager ability and the value style. The portfolio is concentrated within a narrow range of stocks and therefore there can be short term volatility. The manager considers that ultimately the price paid for a stock is the most critical determinant of it delivering a successful return.

- The **Schroder** property mandate delivered a strong absolute return of 10.5% with the industrial sector and several core funds making the strongest contribution. Being underweight to Central London offices helped the mandate beat its benchmark. Going forward, demand for retail and office space remains weak with many town centres suffering from rising vacancy rates and falling rents as online shopping takes its toll. As a result, absolute returns in 2018/19 are expected to be lower than in 2017/18.

- The Fund’s **alternatives** programme continues to mature with the winding down of the Fund’s private equity portfolio. Remaining private equity funds are mostly reaching the “harvesting” stage of their life cycle and are returning cash to the Fund as underlying assets are sold. Capital continues to be drawn down to meet commitments to Grosvenor Capital’s global infrastructure mandate. In addition, around half a dozen new commitments have been made in mainly UK infrastructure using the Fund’s collaboration with Lothian to source new deals. Infrastructure continues to be attractive due to its characteristics of delivering long term inflation linked returns at the lower end of the risk spectrum.

Investment Holdings

The Fund’s 10 largest equity holdings at 31/03/2018 are as listed below:

Name of Stock	Market Value as at 31/03/2018	Sector
BP	£17,407,525	Energy
ROYAL DUTCH SHELL	£16,727,980	Energy
STANDARD CHARTERED	£16,115,292	Financials
HSBC	£15,688,664	Financials
ANGLO AMERICAN	£15,479,318	Materials
PEARSON	£15,354,964	Consumer Discretionary
NOVARTIS	£15,315,502	Health Care
ROYAL BANK OF SCOTLAND	£14,627,746	Financials
ALPHABET	£14,759,355	Information Technology
MICROSOFT	£14,089,853	Information Technology

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

The Falkirk Fund’s single largest holding (excluding pooled funds) is in BP and is approximately 0.76% of 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

2017/18 Review

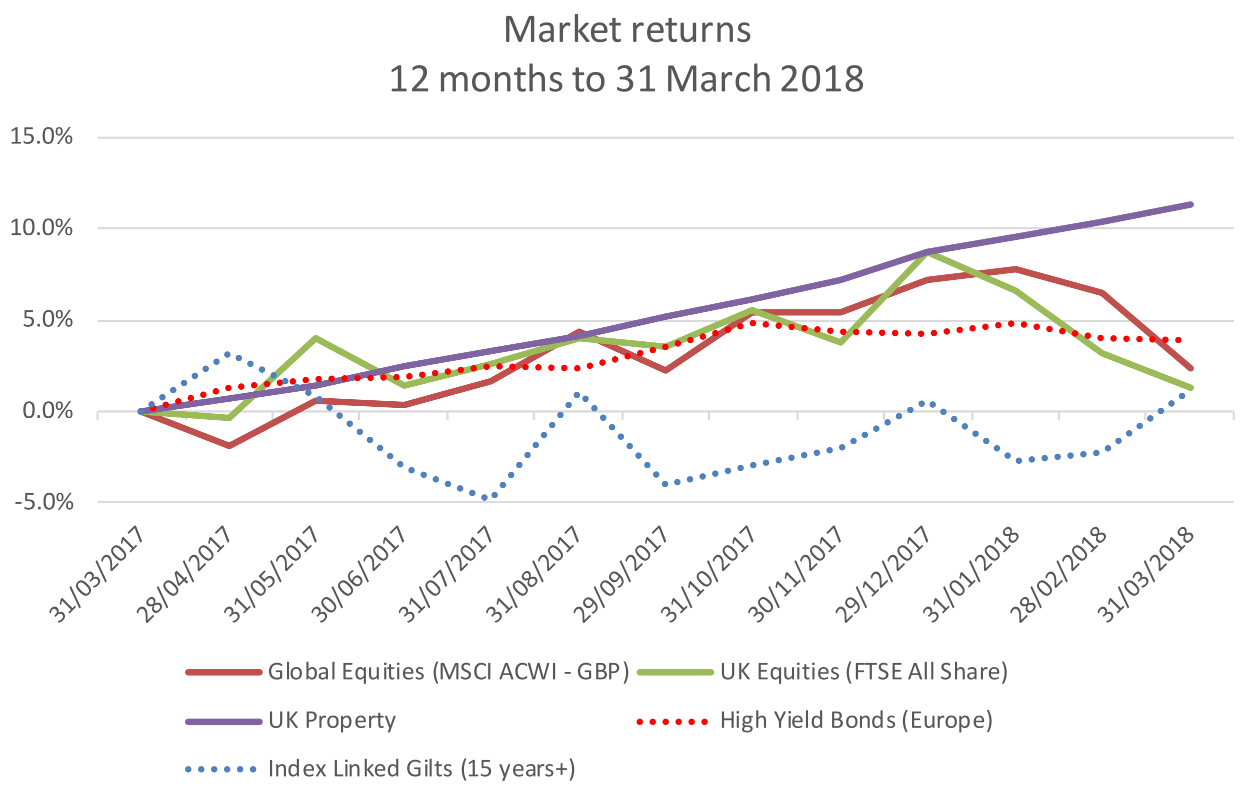
For the 12 months to 31 March 2018, UK equities returned +1.3%, and global equities (in sterling terms) returned +2.6%. Equity market returns for sterling-based investors were dampened by the strength of the pound over the year (global equities returned +11.3% in local currency terms), which reversed much of the fall in value that followed the UK referendum in June 2016. The sharp pull-back in equity markets during Q1 2018 was also a factor, with markets falling as much as 10% from their January 2018 highs to their lows in late March, before settling somewhat at the end of the quarter.

Government bond yields in most major markets traded in a narrow range, before rising in early 2018 as stronger US inflation data pushed up expectations that the US Federal Reserve would raise rates faster than previously anticipated, having already raised interest rates three times over 2017. Credit and high yield bond spreads also traded in a narrow range over the year, with high yield spreads in both the US and Europe trading close to their historic lows.

In the UK, the Bank of England increased its base rate as expected in November 2017, though this was also accompanied by commentary at the time suggesting that further rate rises were less imminent given the Bank's cautious outlook for the economy as the path to the UK's exit from the EU remains unclear. In Europe, 2017 saw significant positive economic momentum, though more recent data emerging in Q1 2018 suggested that economic activity was beginning to slow.

Over the year, the OECD raised its global GDP growth forecast for 2017 and for 2018. While the latest global outlook has turned more positive, there remains significant dispersion at country level with the UK economic outlook the weakest of the major economies.

Following the passing of President Trump's tax reform programme in late 2017, equities continued to march higher through January, before resurgent volatility in late January sent risk assets sharply lower before stabilising somewhat in March. Looking ahead, investors face the prospect of further tightening of monetary policy in the US, alongside concerns around increased protectionism and ongoing geo-political tensions concerning Russia, the Middle East and North Korea.



Market returns
12 months to 31 March 2018
15.0%
10.0%
5.0%
0.0%
-5.0%
31/03/2017
28/04/2017
31/05/2017
30/06/2017
31/07/2017
31/08/2017
29/09/2017
31/10/2017
30/11/2017
29/12/2017
31/01/2018
28/02/2018
31/03/2018
Global Equities (MSCI ACWI - GBP)
UK Equities (FTSE All Share)
UK Property
High Yield Bonds (Europe)
Index Linked Gilts (15 years+)

Corporate Governance

Overview

Consistent with the objectives set out in its **Statement of Investment Principles** and as a responsible investor, the Fund seeks to promote corporate responsibility and good practice amongst all companies in which it invests. To this end, the Fund monitors investee companies to better understand the extent to which they are meeting standards of acceptable corporate behaviour. During the year, this monitoring role was achieved by engaging with companies through:

- the Fund's Investment Managers
- the Fund's membership of the Local Authority Pension Fund Forum (LAPFF) which comprises around 75 UK local government pension funds with combined assets of roughly £230 billion and which exists to promote and maximise the corporate governance aims of Funds
- the Fund's corporate governance and proxy voting agents, Pensions and Investment Research Consultants (PIRC), who provide advice and research services on environmental, social and governance matters

An update on corporate governance matters and voting is given to members at the quarterly Committee and Board meetings.

Local Authority Pension Funds Forum

During 2017/18, LAPFF engaged with major companies on a range of issues, including reliability of accounts, share buybacks, tax transparency, carbon and environmental risk, executive pay, and workforce issues. Engagement is invariably at a personal level between LAPFF office bearers and company chairs or senior executives. Matters being pursued in 2018/19 include gender diversity on boards and plastics pollution.

In relation to climate change, LAPFF are partnering the "50:50" Climate Change Project which is an initiative to encourage the 50 largest public companies to create effective long term climate change strategies.

Voting

The Fund could potentially allow its managers to exercise votes on its behalf at company meetings. However, in order to ensure a consistent approach to voting, it has for the past few years engaged PIRC to undertake this service through its Proxy Voting facility. During 2017/18, PIRC voted at 126 company meetings on 1,917 resolutions with 1,229 votes being cast in favour of resolutions, 490 opposed, 198 being mainly abstentions or withheld votes. The breakdown of votes by geography and category is set out overleaf.

Number of meetings voted by geographical location	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Total
UK & British Overseas	25	8	4	5	42
Europe & Global EU	11	3	2	2	18
USA & Canada	26	4	5	7	42
Rest of the world	14	1	1	8	24
	76	**16**	**12**	**22**	**126**

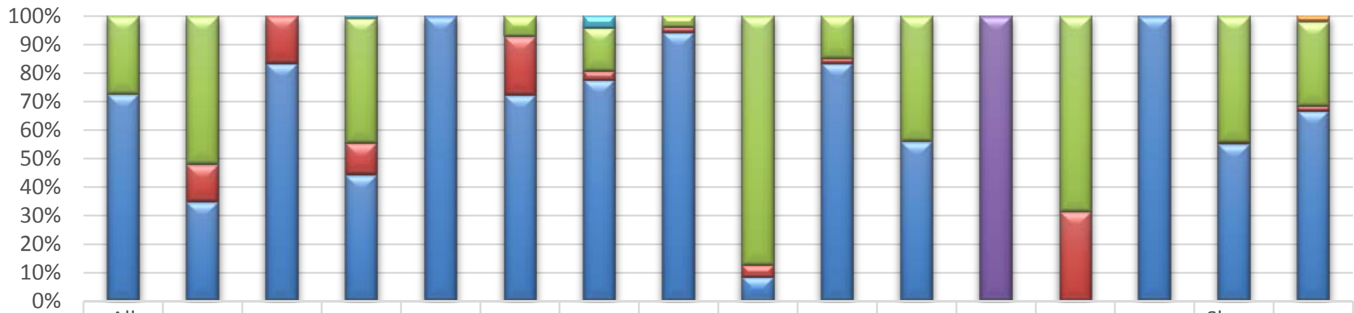
Number of Resolutions by Vote Categories	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Total
For	855	159	81	134	1,229
Abstain	69	11	4	12	96
Oppose	313	64	49	64	490
Non-Voting	24	2	1	0	27
Withhold	32	2	8	1	43
US Frequency Vote on Pay	23	3	3	2	31
Withdrawn	1	0	0	0	1
	1,317	**241**	**146**	**213**	**1,917**

Voting Themes

Areas where "oppose" votes were regularly cast included remuneration policies, executive pay, share buybacks, corporate governance matters and auditor independence. Further information is provided in the chart below.

PIRC attend a Fund event each year in order to brief members about the latest developments in corporate governance.

Votes made in the porfolio per resolution category



	All Employee Schemes	Annual Reports	Articles of Association	Auditors	Corporate Actions	Corporate Donations	Directors	Dividend	Executive Pay Schemes	Miscellaneous	NED Fees	Non-Voting	Say on Pay	Share Capital Restructuring	Share Issue/Re-Purchase	Shareholder Resolution
Withdrawn	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Withheld	0	0	0	1	0	0	42	0	0	0	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0	0	0	0	0	27	0	0	0	0
Oppose	3	83	0	60	0	2	157	2	41	8	7	0	26	0	85	16
Abstain	0	21	3	15	0	6	33	1	2	1	0	0	12	0	1	1
For	8	56	15	61	6	21	802	49	4	45	9	0	0	11	106	36

Stewardship Code

The Fund’s corporate governance responsibilities should also be considered within the context of the UK Stewardship Code. The Code comprises of seven principles which seek to improve the quality of engagement between institutional investors and investee companies. Under the seven principles, companies are required to:

1. publicly disclose their policy on discharging their stewardship responsibilities
2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed
3. monitor their investee companies
4. establish clear guidelines as to how they will escalate their stewardship activities
5. be willing to act collectively with other investors where appropriate
6. have a clear policy on voting and disclosure of voting activity
7. report periodically on their stewardship and voting activities

Consistent with Code requirements, asset managers must produce a statement of their commitment or explain their alternative approach to company engagement. It is pleasing to note that each of the Fund’s investment managers has expressed their commitment to the Code.

Falkirk Council Pension Fund Audited Statement of Accounts 2017/18

Statement 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 20 September 2018.

Councillor Adanna McCue
Convener of Falkirk Council 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 2018 and the transactions of the Pension Fund for year ended 31 March 2018.

Bryan Smail, CPFA MBA
Chief Finance Officer
20 September 2018

Independent Auditor's Report

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

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 approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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 for the year ended 31 March 2018 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the fund during the year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 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)). 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 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. 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 nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Chief Finance Officer and the Administering Authority 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.

The Administering Authority is responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to achieve 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.

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.

Other information in the annual report

The Chief Finance Officer is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and, in doing so, consider whether the 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 there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Report on other requirements

Opinions on matters 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;
- 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 2014.

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.

Hassan Rohimun, 26 September 2018

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

2 St Peter's Square, Manchester M2 3DF

Notes:

1. The maintenance and integrity of the Falkirk Council Pension Fund web site is the responsibility of management; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

2016/17 £'000	Dealings with members, employers and others directly involved in the fund	2017/18 £'000	Note
(82,190)	Contributions	(80,398)	7
(5,211)	Transfers from other pension funds	(3,482)	8
(87,401)		(83,880)	
66,098	Benefits	68,703	9
2,893	Payments to and on account of leavers	6,215	10
68,991		74,918	
(18,410)	**Net (additions)/withdrawals from dealing with members**	**(8,962)**	
10,931	Management expenses	11,305	11
(7,479)	**Net (additions)/withdrawals including fund management expenses**	**2,343**	
	Returns on investments		
(32,103)	Investment income	(37,721)	12
1,915	Taxes on income	1,309	13a
(343,707)	Profit and losses on disposal of investments and changes in market value of investments	(35,996)	14a
(373,895)	**Net return on investments**	**(72,408)**	
(381,374)	**Net (increase)/decrease in the net assets available for benefits during the year**	**(70,065)**	
1,837,451	**Opening Net Assets as at 1 April 2017**	**2,218,825**	
2,218,825	**Closing Net Assets as at 31 March 2018**	**2,288,890**	

PENSION FUND NET ASSETS STATEMENT

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

2016/17 £'000		2017/18 £'000	Note
2,249,480	Investment assets	2,290,809	14
(38,666)	Investment liabilities	(8,806)	14
2,210,814	**Total net investments**	2,282,003	
37	Non-current assets	-	21
10,914	Current assets	9,858	22
(2,940)	Current liabilities	(2,971)	23
2,218,825	**Net Assets of the fund available to fund benefits at the period end**	**2,288,890**	

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 20.

The unaudited accounts were issued on 21 June 2018. The Statements of Accounts present a true and fair view of the financial position of the Pension Fund as at 31 March 2018 and their income and expenditure for the year ended 31 March 2018.

Bryan Smail, CPFA MBA
Chief Finance Officer
20 September 2018

1. Fund and Scheme Overview

Introduction

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 sector statutory scheme which provides defined benefits on a career average basis (n.b. benefits accrued prior to 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 pension scheme and was formerly contracted-out of the State Second Pension.

The scheme 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 2014
- 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) Regulations 2010

The Local Government Pension Scheme (Scotland) Regulations 2018 come into effect on 1 June 2018 and consolidate the 2014 Regulations and subsequent amendments.

The regulations are supplemented by guidance from the Scottish Ministers and the Government Actuary's Department.

Administration of the Falkirk Council Pension Fund is undertaken by an in-house team who oversee the benefits of contributors, deferred members and pensioners on behalf of Clackmannanshire, Falkirk and Stirling Councils, as well as around 30 other employers. Teachers, Police and Firefighters do not come within the scope of the LGPS as they have their own national pension arrangements. 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 with employees being enrolled in the scheme automatically (either as a result of auto enrolment legislation or 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 33 of the Annual Report.

Benefits

Benefits under the LGPS are based on final pensionable pay and length of pensionable service, and are summarised below:

	Service pre 1 April 2009	**Service post 31 March 2009**	**Service post 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 1/49 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 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 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 surrendered.
	The lump sum cannot be greater than 25% of the capital value of the pre 2009 and post 2009 pension rights.		

Benefits from 1 April, 2015 which build up on a career average basis are revalued annually in line with rises in the Consumer Price Index (CPI). Pensions in payment and deferred benefits are also increased in line with CPI.

Additionally, the Scheme provides a range of guaranteed inflation linked benefits including early payment of pension and 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 active members of the fund in accordance with the Local Government Pensions Scheme (Scotland) Regulations 2014. 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. Although the last completed valuation was at 31 March, 2017, it is the valuation at 31 March 2014 that set the employer contribution rates in 2017/18. For the majority of employers, contribution rates were in a range of 17% – 22% of pensionable pay. A copy of both the 2014 Valuation Report and the 2017 Valuation Reports can be found at www.falkirkpensionfund.org.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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. This applies to the adoption of the following new or amended standard within 2018/19 Code:

- IFRS 9 Financial Instruments

The above standard was introduced to provide a single approach to classification and measurement of financial instruments. The main changes will affect financial assets at amortised costs. The provision of the above standard does not apply until 2018/19 financial year. As majority of Fund's assets are measured at Fair Value through profit and loss, the standard is not expected to have significant impact on the financial statements of the Fund.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3. Summary of Significant Accounting Policies

Fund account - revenue recognition

a) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis. Employer contributions are made at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employee contributions are made in accordance with the rates specified in the Scheme rules.

Employer deficit contributions are separately identified on the schedule of contributions set by the fund actuary.

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due to be paid until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund and are calculated in accordance with the Local Government Pension Scheme regulations and guidance from the Government Actuary. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

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 transfers in.

c) Investment income

i) Interest 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. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

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.

iii) Distributions from pooled funds
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.

iv) Property related income
Property-related income consists primarily of rental income.

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.

v) Movement in the net market value of investments
Changes in the net market 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.

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

f) Management Expenses
The Code does not require any breakdown of pension fund administrative expenses. However, in the interest of greater transparency, the fund discloses its pension fund management expenses in accordance with CIPFA's "Accounting for Local Government Pension Scheme Management Expenses (2016)".

Administrative Expenses
All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged directly 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 oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged directly to the fund. Associated management, accommodation and other overheads are apportioned to the activity and charged as expenses to the Fund.

Investment Management Expenses
All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed 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 the investments change.

Where an investment manager’s fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used for inclusion in the Fund Account.

Expenses (including performance fees) charged directly by managers against the capital value of investments have been included within the investment management expenses shown in the Accounts.

Net assets statement

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 16).

h) Freehold and leasehold properties

The Fund’s direct property valuation was reviewed at 31 March 2018. The property has been valued in accordance with the requirements of the RICS Valuation Standards 2014 UK Edition (the “Red Book”). The CIPFA code prescribes that investment properties are to be valued at Fair Value, but also at “highest and best use” following the specification in IFRS13. The valuation took this into account.

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, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

Some of the Fund's external managers use derivative financial instruments to manage the Fund's exposure to specific risks arising from their investment activities. None of the derivatives are held for speculative purposes (see Note 15).

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits of the Fund is assessed on an annual 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 20).

n) Additional voluntary contributions

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

In accordance with regulation 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed in Note 24.

o) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to 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.

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.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 26 and Note 27).

4. 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 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 20.

These 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 amounts reported for assets and liabilities at the balance sheet date and the amounts reported as revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

(i) Actuarial present value of promised retirement benefits (Note 20)

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in inflation, retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

The table below highlights the approximate impact that a small change in the assumptions used would have on the liabilities of the Fund.

Change in assumptions at 31 March 2018	Approximate % increase in liabilities	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	**11%**	**317**
0.5% increase in the Salary Increase Rate	**2%**	**45**
0.5% increase in the Pension Increase Rate	**9%**	**254**

(ii) Private equity/infrastructure investments (Note 16)

Private equity and infrastructure investments are valued at fair value in accordance with "International Private Equity and Venture Capital Valuation Guidelines (2012)". These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Private equity and infrastructure investments are valued in the financial statements at £204m. There is a risk that these investments may be under or overstated in the accounts by £30.6m.

(iii) Freehold and leasehold property, pooled property funds (Note 16)

Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or discount rate could affect the fair value of property.

The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property by £0.2m on a fair value of £2.5m.

6. Events after the Balance Sheet Date

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 21 June 2018. 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.

The Fund has received updated Private Equity/Infrastructure statements for 31 March 2018. The variance between the valuation included in the accounts and the updated statements amounts to £8.6m (£6.4m at 31 March 2017). The amount is not material and therefore no adjustment has been made in the Net Asset Statement.

7. Contributions Receivable

By Category

2016/17 £'000		2017/18 £'000
17,944	Employees' normal contributions	18,026
62,032	Employers' normal contributions (incl. strain)	59,936
2,214	Employers' deficit recovery contributions	2,436
82,190	**Total**	**80,398**

By Authority

2016/17 £'000		2017/18 £'000
27,840	Administering authority	26,944
45,227	Other scheduled bodies	43,997
8,927	Admission bodies	9,263
196	Transferee admission body	194
82,190	**Total**	**80,398**

8. Transfers from Other Pension Funds

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

2016/17 £'000		2017/18 £'000
5,211	Individual transfers	3,482

9. Benefits Payable

By Category

2016/17 £'000		2017/18 £'000
49,685	Pensions	52,758
15,286	Commutation and lump sum retirement benefits	13,778
1,127	Lump sum death benefits	2,167
66,098	**Total**	**68,703**

By Authority

2016/17 £'000		2017/18 £'000
21,898	Administering authority	24,236
40,813	Other scheduled bodies	41,146
3,359	Admission bodies	3,311
28	Transferee admission body	10
66,098	**Total**	**68,703**

10. Payments to and on Account of Leavers

2016/17 £'000		2017/18 £'000
310	Refunds to members leaving service	246
2,583	Individual transfers	5,969
2,893	**Total**	**6,215**

11. Management Expenses

2016/17 £'000		2017/18 £'000
582	Administrative costs	749
9,791	Investment management expenses	10,053
558	Oversight and governance costs	503
10,931	**Total**	**11,305**

11a. Investment Management Expenses

2016/17 £'000		2017/18 £'000
4,398	Management fees invoiced	4,961
3,867	Management fees deducted from capital	3,489
956	Transaction costs	613
404	Performance related fees	861
145	Custody fees	126
21	Other	3
9,791	**Total**	**10,053**

In addition to 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 2017/18 is £3.7m (£3.7m in 2016/17).

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

2016/17 £'000		2017/18 £'000
23,664	Income from equities	26,111
(118)	Income from bonds	-
989	Private equity income	841
5,392	Pooled property investments	6,667
143	Pooled investments – unit trusts and other managed funds	-
182	UK property	223
1,585	Infrastructure	3,472
266	Cash and other income	407
32,103	**Total**	**37,721**

UK property income relates to West Mains Industrial Estate, Falkirk, fully owned by the Fund.

13. Other Fund Account Disclosures

13a. Taxes on Income

2016/17 £'000		2017/18 £'000
(1,577)	Withholding tax-equities	(1,013)
(141)	Withholding tax-pooled property investments	(174)
(197)	Withholding tax-private equity	(122)
(1,915)	**Total**	**(1,309)**

13b. External Audit Costs

2016/17 £'000		2017/18 £'000
20	Payable in respect of external audit	20

14. Investments

Market Value 31/03/17 £'000	Investment Assets	Market Value 31/03/18 £'000
	Investment Assets	
3,839	Bonds	4,181
818,939	Equities	849,972
905,873	Pooled investments	931,009
142,819	Managed property funds	137,120
68,709	Private equity	58,780
111,917	Infrastructure	145,369
4,782	Private debt	2,180
2,500	Property (West Mains)	2,500
76	Derivatives – options	95
-	– forward foreign exchange	158
	Cash Deposits	
27,142	Other balances	20,732
80,613	Deposits	126,660
	Other Investment Balances	
3,359	Debtors – investment income due	4,071
78,912	– due from broker	7,982
2,249,480	**Total Investment Assets**	**2,290,809**

	Investment Liabilities	
(123)	Derivatives – forward foreign exchange	-
(38,543)	Creditor – due to broker	(8,806)
(38,666)	**Total Investment Liabilities**	**(8,806)**
2,210,814	**Net Investment Assets**	**2,282,003**

14a. Reconciliation of Movements in Investments and Derivatives

Period 2017/18 Investment Assets	**Market Value 01/04/17 £'000**	**Purchases at Cost £'000**	**Sale Proceeds £'000**	**Change in Market Value £'000**	**Market Value 31/03/18 £'000**
Bonds	3,839	-	-	342	4,181
Equities	818,939	250,811	(209,447)	(10,331)	849,972
Pooled investments	905,873	-	(1,124)	26,260	931,009
Managed property funds	142,819	-	(15,328)	9,629	137,120
Property (West Mains)	2,500	-	-	-	2,500
Private equity	68,709	4,033	(20,401)	6,439	58,780
Infrastructure	111,917	39,911	(12,144)	5,685	145,369
Private debt	4,782	-	(2,736)	134	2,180
Derivatives					
- options	76	778	(1,399)	640	95
- forward foreign exchange	(123)	561	(452)	172	158
	2,059,331	**296,094**	**(263,031)**	**38,970**	**2,131,364**
Deposits	80,613			(2,974)	126,660
Other balances	27,142	380			20,732
Broker balance	40,369				(824)
Investment income due	3,359				4,071
Net Investment Assets	**2,210,814**			**35,996**	**2,282,003**

Reconciliation of Movements in Investments and Derivatives

Period 2016/17 Investment Assets	Market Value 01/04/16 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/17 £'000
Bonds	-	5,767	-	(1,928)	3,839
Equities	690,588	221,831	(254,207)	160,727	818,939
Pooled investments	767,046	1,063,510	(1,076,205)	151,522	905,873
Managed property funds	139,207	12,400	(9,941)	1,153	142,819
Property (West Mains)	2,300	-	-	200	2,500
Private equity/ infrastructure/private debt	137,582	61,682	(39,746)	25,890	185,408
Derivatives					
- options	-	471	-	(395)	76
- forward foreign exchange	125	1,149	(2,536)	1,139	(123)
	1,736,848	**1,366,810**	**(1,382,635)**	**338,308**	**2,059,331**
Deposits	77,157			5,263	80,613
Other balances	13,396			136	27,142
Broker balance	185				40,369
Investment income due	3,728				3,359
Net Investment Assets	**1,831,314**			**343,707**	**2,2180,814**

14b. Analysis of Investments

31/03/17 £'000		31/03/18 £'000
3,839	**UK Corporate Bonds**	**4,181**
	Quoted Equities	
329,553	UK	357,498
489,386	Overseas	492,474
818,939		**849,972**
	Pooled funds	
144,348	Equities – UK	146,231
335,228	– Overseas	344,651
124,158	Bonds – UK	125,467
50,466	– Overseas	51,746
226,372	Diversified Growth	238,469
25,301	Social & Affordable Housing	24,445
905,873		**931,009**
	Property	
139,724	Pooled Property Funds – UK	135,816
3,095	– Overseas	1,304
2,500	Direct UK (West Mains)	2,500
145,319		**139,620**
	Private Equity	
68,709	Overseas Funds	58,780
68,709		**58,780**
	Private Debt	
4,782	Pooled UK Funds	2,180
4,782		**2,180**
	Infrastructure	
51,241	Pooled Infrastructure Funds – UK	66,913
60,676	– Overseas	78,456
111,917		**145,369**
	Derivatives	
76	Options	95
-	Forward Foreign Exchange	158
76		**253**
107,755	**Cash deposits & other balances**	**147,392**
3,359	**Investment income due**	**4,071**
78,912	**Amounts due from broker**	**7,982**
2,249,480	**Total investment assets**	**2,290,809**

	Investment liabilities	
(123)	Derivatives	-
(38,543)	Amounts due to broker	(8,806)
(38,666)	**Total investment liabilities**	**(8,806)**
2,210,814	**Net investment assets**	**2,282,003**

14c. Investments Analysed By Fund Manager

Market Value 31/03/2017 £'m	Market Value 31/03/2017 (%)		Market Value 31/03/2018 £'m	Market Value 31/03/2018 (%)
289	13.1	Aberdeen Asset Management	234	10.3
365	16.6	Newton Investment Management Ltd	366	16.2
371	16.8	L&G Investment Management Ltd – Passive	381	16.9
109	5.0	L&G Investment Management - Fundamental Weighting	110	4.8
285	13.0	Schroder Investment Management Ltd	293	12.9
147	6.7	Schroder Investment Management Ltd (Property)	150	6.6
175	7.9	Baillie Gifford & Co Ltd - Bonds	177	7.8
226	10.3	Baillie Gifford & Co Ltd - Diversified Growth	238	10.5
37	1.7	Aberdeen Standard (SL Capital Partners LLP)	31	1.4
32	1.5	Wilshire Private Markets Group	28	1.2
5	0.2	M&G UK Companies	2	0.1
25	1.2	Hearthstone	24	1.1
61	2.8	Grosvenor Capital	69	3.0
25	1.2	Ancala Partners	26	1.1
11	0.5	Dalmore Capital	16	0.7
12	0.5	Equitix Investment Management	14	0.6
-	-	Harbert Management Corporation	7	0.3
-	-	InfraRed Capital Partners Ltd	7	0.3
3	0.1	FIM Harburnhead LP	4	0.2
6	0.3	UBS/Greensands	6	0.3
-	-	KKR	3	0.1
13	0.6	In House Cash	82	3.6
2,197	**100.0**	**Total**	**2,268**	**100.0**

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

	31/03/2017		31/03/2018	
	£'000	%	£'000	%
Baillie Gifford Diversified Growth	226,372	10.3	238,469	10.5
L&G UK Equity Index (OFC)	134,546	6.1	136,407	6.1
L&G N America Equity Index (OFC)	125,186	5.7	126,829	5.6

Regulation 14 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) 2010 (SSI 2010/233) sets the maximum level of investment the fund is allowed to have in a single holding at 10%. Although the Fund does hold a stock over 10% of the Fund value, this is allowed as the investment is in a pooled vehicle.

14d. Securities Lending

The Fund did not participate in any stock lending programmes.

14e. 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:

2016/17 £'000		2017/18 £'000
199	Within one year	217
703	Between one and five years	657
225	Later than five years	127
1,127	**Total**	**1,001**

15. Analysis of Derivatives

The Fund's approach to derivatives is to allow individual managers to decide to participate in derivative contracts subject to any limits set out in their investment management agreements. At present, only Newton chooses to do so, with derivatives making up 0.07% of their portfolio's value.

Settlement	Currency bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		000		000	£'000	£'000
One to six months	NOK	7,542	USD	(7,274)	178	
One to six months	USD	5,642	GBP	(5,662)		(20)
Open forward currency contracts at 31 March 2018					**178**	**(20)**
Net forward currency contracts at 31 March 2018						**158**

Prior year comparative

Open forward currency contracts at 31 March 2017	**0**	**(123)**
Net forward currency contracts at 31 March 2017	**(123)**	

The above currency forwards contracts are used as hedges reducing the extent to which Newton's portfolio is exposed to currency movement.

Options

Investment	Expires	Put/call	Notional Holding	Market value at 31 March 2018
				£'000
S&P 500 INDEX	One to three months	Put	43	95

Options minimise the risk of loss of value through adverse equity price movement.

16. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Equity derivatives - options	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled investments – equities, fixed income and property funds	Level 2	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
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Directly held property/Social and Affordable Housing	Level 3	Valued/Reviewed at year end in accordance with the RICS Valuation Standards by RICS registered valuer of Falkirk Council (Directly held property) and independent valuer Graham and Sibbald (Social and Affordable Housing)	Existing lease terms and rentals Independent market research Covenant strength for existing tenants	Significant changes in the rental growth, vacancy levels, general changes in the market conditions
Private Equity/ Infrastructure	Level 3	Valuation in accordance with the International Private Equity and Venture Capital Valuation Guidelines	Discount rate Projected future cash flow Recent market transactions for similar assets in comparable markets	Changes to the cash flows, differences between audited and unaudited accounts, material events occurring between the date of financial statements provided and the pension fund's own reporting date

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 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018 in £'000	Value on increase in £'000	Value on decrease in £'000
Infrastructure	15%	145,369	167,174	123,564
Private Debt	10%	2,180	2,398	1,962
Private Equity	15%	58,780	67,597	49,963
Social and Affordable Housing	10%	24,445	26,890	22,001
Property	8%	2,500	2,700	2,300
		233,274	**266,759**	**199,790**

16a. Fair Value Hierarchy

Assets and liabilities valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities and an exchange traded derivative.

Level 2
Assets and liabilities at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3
Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instruments' valuation is not based on observable market data.

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

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Values at 31 March 2018	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit & loss	848,541	1,049,549	230,774	2,128,864
Non-financial assets at fair value through profit and loss	-	-	2,500	2,500
Net investment assets	**848,541**	**1,049,549**	**233,274**	**2,131,364**

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Values at 31 March 2017	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit & loss	819,014	1,027,230	210,710	2,056,954
Non-financial assets at fair value through profit and loss	-	-	2,500	2,500
Financial liabilities at fair value through profit and loss	-	(123)	-	(123)
Net investment assets	**819,014**	**1,027,107**	**213,210**	**2,059,331**

16b. Reconciliation of fair value measurements within Level 3

	Market Value 1 April 2017	Purchases during the Year	Sales during the Year	Unrealised Gains/ (Losses)	Realised Gains/ (Losses)	Market Value 31 March 2018
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Infrastructure	111,917	39,911	(12,144)	1,083	4,602	145,369
Private Debt	4,782		(2,736)	10	124	2,180
Private Equity	68,710	4,033	(20,401)	(3,769)	10,207	58,780
Social & Affordable Housing	25,301	-	(626)	(230)	-	24,445
Property	2,500	-	-	-	-	2,500
	213,210	**43,944**	**(35,907)**	**(2,906)**	**14,933**	**233,274**

17. Financial Instruments

17a. 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.

31 March 2017				31 March 2018		
Fair value through profit & loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000		Fair value through profit & loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
			Financial Assets			
3,839			Bonds	4,181		
818,939			Equities	849,972		
905,873			Pooled investments	931,009		
142,819			Property	137,120		
68,709			Private Equity	58,780		
111,917			Infrastructure	145,369		
4,782			Private Debt	2,180		
76			Derivative contracts	253		
	111,484		Cash		150,584	
	82,271		Other investment balances		12,053	
	7,222		Debtors		6,666	
2,056,954	**200,977**	**-**	**Total**	**2,128,864**	**169,303**	**-**
			Financial Liabilities			
(123)			Derivative contracts	-		
(38,543)			Other Investment balances	(8,806)		
		(2,940)	Creditors		-	(2,971)
(38,666)	**-**	**(2,940)**	**Total**	**(8,806)**		**(2,971)**
2,018,288	**200,977**	**(2,940)**		**2,120,058**	**169,303**	**(2,971)**
		2,216,325	**Total net financial instruments**			**2,286,390**
		2,500	Amounts not classified as financial instruments			2,500
		2,218,825	**Total net assets**			**2,288,890**

17b. Net Gains and Losses on Financial Instruments

31 March 2017 £'000		31 March 2018 £'000
	Financial assets	
336,968	Fair value through profit and loss	38,158
5,399	Loans and receivables	-
	Financial liabilities	
1,140	Fair value through profit and loss	812
-	Loans and receivables	(2,974)
200	Financial liabilities at amortised cost	
343,707	**Total**	**35,996**

18. 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 cashflows. 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. 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 Administering Authority 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 Administering Authority 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 the 31 March 2018 is estimated to be around £469.1m (31 March 2017: £479.4m).

(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 Administering Authority 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 Sterling 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 the 31 March 2018 is estimated to be around £764m (31 March 2017:£643m).

(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 2018 accounted for 11.2% of fund assets (31 March 2017: 5.9%).

Balances at 31 March 2017 £’000		**Moody’s Credit Rating/ S&P Rating**	**Balances at 31 March 2018 £’000**
	Held for investment purposes		
68,261	Northern Trust Global Investment Limited – Liquidity Funds	Aaa-mf	90,469
5,000	Standard Life Investment Sterling Liquidity Fund	AAA-mf	5,000
28,433	Northern Trust Company – Cash Deposits	Aaa-mf	25,108
2,016	Santander UK PLC	Aa3	2,019
4,045	Bank of Scotland PLC	Aa3	4,064
107,755	**Total investment cash**		**126,660**
	Held for other purposes		
4,866	Clydesdale Bank	Baa1	3,791
-	Royal Bank of Scotland	Baa3	78
112,621	**Total cash**		**130,529**

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

The credit rating used above is Moody's Long Term Outlook or S&P if Moody's is not available.

Following a procurement exercise during 2017/18, the Council (and the Fund) took the decision to transfer its banking arrangements from the Clydesdale Bank to the Royal Bank of Scotland (RBS). The full transition to RBS is expected to be completed during 2018/19.

(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 83%) 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 KPMG, 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	30.0%
Private Equity	30.0%
Private Debt	10.0%
Commodities	30.0%
Property	13.0%
Infrastructure	12.0%
Corporate Bonds	5.6%
Diversified Credit	11.0%
Fixed Interest Gilts	6.5%
Index-Linked Gilts	11.0%
Derivatives	1.0%
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 2018

Asset Type	Asset Value (£'m)	Asset Weight	Volatility	Potential Change +/- (£'m)	Value on increase (£'m)	Value on decrease (£'m)
Equities - Developed Markets	1,300.4	57.1%	20.5%	266.7	1,567.0	1033.9
Equities - Emerging Markets	91.0	4.0%	30.0%	27.3	118.3	63.7
Private Equity	60.2	2.6%	30.0%	18.1	78.3	42.1
Private Debt	2.2	0.1%	10.0%	0.2	2.4	2.0
Commodities	4.8	0.2%	30.0%	1.4	6.2	3.3
Property – Balanced	184.3	8.1%	13.0%	24.0	208.3	160.4
Infrastructure	169.6	7.4%	12.0%	20.3	189.9	149.2
Corporate Bonds	90.8	4.0%	5.6%	5.0	95.8	85.7
Diversified Credit	58.2	2.5%	11.0%	6.4	64.6	51.8
Fixed Interest Gilts	113.1	5.0%	6.5%	7.4	120.5	105.7
Index-Linked Gilts	35.1	1.5%	11.0%	3.8	38.9	31.2
Derivatives	0.4	0.0%	1.0%	0.0	0.5	0.4
Cash	171.9	7.5%	1.0%	1.7	173.6	170.3
Total Assets (without correlations)	**2,282.0**	**100.0%**	**16.7%**	**382.3**	**2,664.3**	**1,899.7**
Total Assets (including correlations)	**2,282.5**		**14.0%**	**319.0**	**2,601.5**	**1,963.4**
Assets Relative to Liabilities (including correlation)	**2,282.5**		**14.0%**	**319.7**	**2,602.2**	**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 2017 are set out in the table below.

Position as at 31 March 2017

Asset Type	Asset Value (£'m)	Asset Weight	Volatility	Potential Change +/- (£'m)	Value on increase (£'m)	Value on decrease (£'m)
Equities - Developed Markets	1,250.1	56.6%	20.5%	256.3	1,506.5	993.9
Equities - Emerging Markets	89.8	4.1%	30.0%	26.9	116.8	62.9
Private Equity	71.7	3.2%	30.0%	21.5	93.1	50.2
Commodities	1.8	0.1%	30.0%	0.5	2.4	1.3
Property – Balanced	186.5	8.4%	13.0%	24.2	210.7	162.3
Infrastructure	131.4	5.9%	18.0%	23.7	155.1	107.7
Corporate Bonds	78.4	3.5%	5.5%	4.3	82.7	74.1
Diversified Credit	88.3	4.0%	11.0%	9.7	98.0	78.6
Fixed Interest Gilts	88.6	4.0%	6.6%	5.9	94.5	82.7
Index-Linked Gilts	34.8	1.6%	10.9%	3.8	38.5	31.0
Cash	189.4	8.6%	1.1%	2.1	191.5	187.3
Total Assets (without correlations)	**2,210.8**	**100.0%**	**17.1%**	**378.9**	**2,589.8**	**1,832.0**
Total Assets (including correlations)	**2,210.8**		**14.8%**	**326.5**	**2,537.3**	**1,884.4**
Assets Relative to Liabilities (including correlation)	**2,210.8**		**14.8%**	**327.8**	**2,538.7**	**N/A**

19. Funding arrangements

In line with the Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014, 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 most recent funding valuation took place as at 31 March 2017, however employer contribution rates for 2017/18 were set as a result of the valuation as at 31 March 2014.

In determining the employer contribution rates, the actuary takes into account the funding policy as set out in the Funding Strategy Statement. 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
- 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 a funding level of 100% over a period of 20 years
- to minimise the downside risk of a poor funding outcome
- to provide stability in employer contributions by spreading any increase in rates over a period of time, normally three years

A deficit recovery plan is in place which seeks to balance funding prudence with contribution affordability.

At the 2014 valuation, the Fund was assessed as 85% funded implying a deficit of £283m. A number of employers were identified as being in a deficit situation and a recovery plan was been built into their contribution rates for the period from 1 April 2015 to 31 March 2018 with contribution increases being phased in over a three year period. The common contribution rate (i.e. the rate applicable to the Fund as a whole) was assessed as 23.4% of pay.

The common contribution rate is a theoretical figure. In practice, individual employers' rates will vary from the common rate depending on the demographic and actuarial factors peculiar to each employer. Full details of the contribution rates payable and the methods and assumptions used in the 2014 valuation are set out in the actuary's valuation report dated 31 March 2015.

The valuation of the Fund has been undertaken using the projection unit method under which the salary increase for each member is assumed to increase until they leave active service through death, retirement or withdrawal from service. The main assumptions applied at the 2014 Valuation were as follows:

Financial Assumptions

Assumption	March 2014
Discount Rate	5.1%
Inflation RPI	3.5%
Inflation CPI	2.7%
Pension Increases	2.7%
Pay increases	4.0%

Longevity Assumptions

The life expectancy assumption is based on the Fund's Club Vita analysis with improvements in line with the CMI_2012 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.1 years	23.8 years
Future pensioners (assumed to be currently 45)	24.3 years	26.3 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 10% of members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the Scheme.

More Information

The Actuary has provided a statement describing the funding arrangements of the Fund during 2017/18. This can be found at Appendix 1 of this report.

New employer contribution rates have been set from April 2018 by virtue of the Fund Valuation as at 31 March 2017.

Copies of the both the 2014 Valuation Report and the 2017 Valuation Report as well as the Funding Strategy Statement can be found www.falkirkpensionfund.org.

20. 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 19). The actuary has also valued ill health and death benefits in line with IAS19.

	31 March 2017 £'m	31 March 2018 £'m
Present Value of Promised Retirement Benefits	3,407	2,959
Fair Value of Scheme Assets	2,219	2,289
Net Liability	1,188	670

As noted above, the liabilities are calculated on an IAS19 basis and will therefore differ from the results of the 2014 triennial funding valuation (see Note 19) because IAS19 requires liabilities to be valued according to a specific discount rate rather than a rate which reflects the market rates.

The key assumptions relied upon by the actuary in deriving the actuarial present value of promised retirement benefits are as follows:

IAS19 Assumptions	31 March 2017 % p.a.	31 March 2018 %p.a.
Discount Rate	2.6	2.7
Pay Increase	3.9	2.9
Price Inflation/Pensions Increases	2.4	2.4

21. Non Current Assets

Long Term Debtors

31 March 2017 £'000		31 March 2018 £'000
37	Strain contributions (due in over 1 year)	-

22. Current Assets

31 March 2017 £'000		31 March 2018 £'000
	Debtors	
4,823	Contributions due – employers	4,938
1,457	Contributions due – members	1,456
696	Strain contribution (due within 1 year)	110
136	Transfer values receivable (joiners)	120
73	Sundry debtors	42
3,729	Cash balances	3,192
10,914	**Total**	**9,858**

Analysis of Debtors

31 March 2017 £'000		31 March 2018 £'000
1,217	Central government bodies	1,207
4,904	Other local authorities	4,486
20	Public corporations and trading funds	21
1,044	Other entities and individuals	952
7,185	**Total**	**6,666**

23. Current Liabilities

31 March 2017 £'000		31 March 2018 £'000
(904)	Benefits payable	(1,080)
(101)	Transfer values payable (leavers)	(261)
(1,935)	Sundry creditors	(1,630)
(2,940)	**Total**	**(2,971)**

Analysis of Creditors

31 March 2017 £'000		31 March 2018 £'000
(180)	Central government bodies	-
(51)	Other local authorities	(118)
(1,720)	Public corporations and trading funds	(1,310)
(989)	Other entities and individuals	(1,543)
(2,940)	**Total**	**(2,971)**

24. Additional Voluntary Contributions

Market Value 31 March 2017 £'000		Market Value 31 March 2018 £'000
3,138	Standard Life	3,143
2,006	Prudential	2,584
5,144	**Total**	**5,727**

AVC contributions of £296k were paid directly to Standard Life (£310k in 2016/17) and £1,274k to Prudential during the year (£1,252k in 2016/17).

These amounts are not included in the Pension Fund Accounts in accordance with regulation 4 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010 No. 233).

25. Related Party Transactions

Falkirk Council

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

The Council is also the single largest employer of members of the Fund and contributed £21.1m to the fund in 2017/18 (2016/17: £21.9m).

The Fund uses Council premises and systems and these costs are recharged back to the Fund. 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 2018 the Fund owed the Council £0.7m (£1.1m in 2016/17) mainly in respect of invoices processed through the Council's financial system at the end of March 2018 and paid in the new financial year. The payment was settled at the beginning of April 2018.

Governance

Four members of the Pensions Committee - D Balsillie, I McLean, J Patrick and P Reid - are in receipt of LGPS benefits from the Fund. In addition, Committee members D Balsillie, J Blackwood, N Coleman, A Douglas and A McCue are active members of the Fund.

All members of the Pension Board are active members, except Councillor M Brisley who is a pensioner member.

25a. Key Management Personnel

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

2016/17 £'000		2017/18 £'000
87	Short-term benefits	89
603	Post-employment benefits	648
690	**Total**	**737**

26. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £87.7m (31 March 2017 £118m).

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

27. 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 in favour of the Fund and payment will only be triggered in the event of employer default.

ANNUAL GOVERNANCE STATEMENT – 2017/18

Introduction

Falkirk Council Pension Fund operates within the terms of the Local Government Pension Scheme.

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

The Local Authority Accounts (Scotland) Regulations 2014 require that all Councils conduct a review, at least once in each financial year, of the effectiveness of the system of internal controls and that an Annual Governance Statement is included in the Pension Fund Annual Report and Accounts. A governance statement encompassing all Council operations is included in the Annual Report and Accounts of Falkirk Council, however, given the statutory requirement for Pension Fund accounts to be published separate from those of the Council (and in view of the materiality of the Pension Fund to Falkirk Council), it is appropriate that a more tailored governance statement should be provided by the Fund.

Pension Fund Governance Framework

The LGPS regulations require Funds to publicise their governance arrangements in a Governance Compliance Statement. The current governance structure is described at Pages 24-28 of the Fund Annual Report and Accounts. The Governance Compliance Statement was updated in August 2017 to take account of a revised governance model in relation to investment decision making.

Scope of Responsibility

Under the Scheme of Delegation, the Pensions Committee is responsible for Fund business including regulatory compliance and monitoring management responses to audit recommendations.

The Chief Finance Officer is responsible for arranging the proper administration of the financial affairs of the Falkirk Council Pension Fund, including the internal audit of the Fund's control environment to provide reasonable assurance on matters such as:

- funding (including the collection of contributions)
- governance and training
- investment management
- administration (including the calculation of benefits)
- security of data

The following controls are in place to reduce risk in these key areas:

- funding is assessed through a three yearly valuation undertaken by an independent actuary; inter valuation updates are provided to the Pensions Committee and Board; monthly contributions are monitored for timeliness and accuracy of payments with persistent breaches (should there be any) being reported to the Pensions Regulator
- governance is supported by a governance framework which contains non-Falkirk Council representation
- investment records compiled by Fund's external managers are reconciled to those maintained by the Fund custodian; investment managers are required to submit details of their control and assurance reports; a more broadly based governance model relating to investment management has been adopted, and; strict limits apply in relation to amounts that can be allocated to a single manager or holding
- pension payments and other financial transactions require authorisation from at least two persons including a senior officer; the Fund subscribes to a specialist technical resource to help resolve complex pensions questions; the Fund operates a pensions administration system maintained by an experienced specialist software vendor
- the Council's Information Governance framework exists to enable *data to be* securely managed*;* staff receive regular training on data security matters

Control Environment

The scale of the Fund's investments (c. £2.3bn) and attendant risks underline the importance of control reports obtained from external investment managers. The main source of assurance is the annual audit report produced by each of the managers' independent service auditors. A similar report is also obtained in respect of the Fund's Global Custodian who is responsible for the safekeeping and servicing of the Fund's assets. Fund Officers review these reports and, on an exceptions basis, report any concerns to the Pensions Committee. Details of the reports obtained are listed on Page 35 of the Annual Report. Separately, officers of the Fund (and seconded colleagues from the Lothian Pension Fund) meet at least annually with fund managers to gain assurance around the safeguarding of assets and resilience of systems.

In line with the Council's procedures for investigating fraud and corruption, 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.

To support its overall framework of control, 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's Councillors' Code of Conduct. Contract Standing Orders and Financial Regulations which regulate financial and transactional activity have been updated in recent years to take account of evolving systems and emerging risks.

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.

In overseeing the Fund’s control arrangements, and in forming the above opinions, 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 Corporate Risk Management Group and other Corporate Working Groups
- Internal/External Audit work as agreed annually with the Pensions Committee

Monitoring is undertaken within the context of the Fund’s requirements to operate within a strict statutory framework and also to deliver best value.

System of Internal Financial Control
This section deals with the systems of internal financial control of Falkirk Council as administering body of the Fund for the year to 31 March 2018. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control.

The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations, and associated guidance; delegation and accountability; budgeting systems; and robust management information.

The Council’s Internal Audit Section provides assurance on arrangements for risk management, governance, and control, and undertakes a regular, risk based, programme of work approved by the Chief Executive, Chief Finance Officer, and Council’s Audit Committee. The Fund uses a number of corporate systems, including the Council’s Financial Information System and the online HR system. Assurance can therefore be taken from the broad seam of internal audit work undertaken on these and other systems annually.

The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Section, including annual self-assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. Self-assessments have confirmed broad compliance, and this was independently verified via a peer review undertaken by the Scottish Prison Service’s Head of Audit and Assurance in May 2018.

All Internal Audit reports are issued to the relevant managers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising are brought to the attention of the Pensions Committee. During 2017/18, there were no matters which required to be brought to the attention of the Committee.

During 2017/18, in addition to work on the Council's wider control environment, Internal Audit undertook a review of data security, governance arrangements and sample transactional testing around key pensions administration activities. The transactional testing was to determine if:

- new member contributions to the Pension Fund were properly calculated
- new members were properly enrolled
- the correct transfer values of pension rights either into or out of the Pension Fund had been received or paid
- the correct pension payments (including lump sum payments) were paid to retiring Fund members

As a result of the work undertaken in 2017/18, Internal Audit were able to provide Substantial Assurance in relation to the adequacy of arrangements and found that the processes were working effectively. This will be reported to the Pensions Committee and Pension Board at their joint meeting of 21 June 2018.

Governance Arrangements – Future Developments and Improvements
Falkirk Council is committed to ensuring robust and proportionate governance. That said, the ever changing environment within which the Council operates means that there is invariably scope for improvement.

In respect of certain matters identified by Internal Audit and accepted by management as being in need of attention, management are committed to the following actions:

	Item	**Timescale**	**Responsible Person**	**Committee Approval Required**
1	Reviewing the Risk Register	December 2018	Pensions Manager	Yes
2	Establishing an Access Control Policy for the Pensions Administration System	December 2018	Pensions Manager	No
3	Updating the Training Policy for Committee and Board and reporting on attendance at meetings and training events	March 2019	Pensions Manager	Yes

Certification

This Annual Governance Statement summarises, openly and transparently, arrangements made by Falkirk Council Pension Fund for 2017/18 and the period to date. It highlights areas for improvement, and is consistent with the Council's own improvement agenda.

Councillor Adanna McCue
Convener of the Pensions Committee

Kenneth Lawrie
Chief Executive

Falkirk Council
Pension Fund

Local Government Pension Scheme

Governance Compliance Statement

24 August, 2017

Governance Compliance Statement

Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 2014/164) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements. The undernoted Statement tests the Falkirk 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
(a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	**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.
(b)	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.

c)	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.
(d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**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 member to also sit on the Committee.

Principle B – Representation

Requirement		Level of Compliance	Arrangements in Place
(a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	(i) Employing authorities (including e.g. admission bodies);	**Full Compliance**	Representatives of fund employers, including an admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee
	(ii) Scheme members (including deferred and pensioner scheme members);	**Full Compliance**	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.

Requirements		Level of Compliance	Arrangements in Place
	(iii) 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.
	(iv) 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
(b)	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 opportunity to contribute to the decision making process, with or without voting rights.	**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 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
(a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	**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.
(b)	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
(a)	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
(a)	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.
(b)	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.
(c)	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
(a)	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.
(b)	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.
(c)	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
(a)	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
(a)	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
(a)	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
24th August, 2017

ACTUARIAL STATEMENT FOR 2017/18

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 2014. 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 2018. 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
- 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
- to meet the funding standards set by the Government Actuary's Department (GAD)

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 66% 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 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £2,219 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £184 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 2018 to 31 March 2021 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

Details of the methods and assumptions used are described in the 2017 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 2017 valuation were as follows:

Financial assumptions	31 March 2017
Discount rate	3.5%
Salary increase assumption	2.9%
Benefit increase assumption (CPI)	2.4%

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 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.2 years	23.7 years
Future Pensioners*	22.7 years	25.5 years

*Currently aged 45

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Asset returns over the period have been lower than the valuation discount rate and real bond yields at 31 March 2018 are at a similar level to 31 March 2017. Combining the impact of these may mean that the overall funding level at 31 March 2018 has fallen slightly since the last formal valuation. The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Julie West FFA
For and on behalf of Hymans Robertson LLP
11 May 2018

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

APPENDIX 2

SCHEDULED AND ADMISSION BODIES AS AT 31 MARCH 2018

Scheduled Bodies
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 (ex Central Scotland Fire & Rescue Service)
Scottish Police Authority (ex Central Scotland Police)
Stirling Council
Visit Scotland (Ex-Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board)

Admission Bodies with Active Members
Active Stirling
Amey (Clackmannanshire Schools Project) *
Ballikinrain School
Central Carers Association
Ceteris
Colleges Scotland (ex Association of Scottish Colleges)
Cowane's Hospital
Dollar Academy Trust
Falkirk Community Trust Ltd
Forth and Oban Ltd
McLaren Community Leisure Centre *
Scottish Autism*
Seamab School
Smith Art Gallery
Snowdon School Ltd
Stirling District Tourism Ltd
Stirling Enterprise Park Limited (STEP)
Strathcarron Hospice
thinkWhere Ltd. (formerly Forth Valley GIS Ltd) *
Cromwell European Management Ltd (ex Valad Management (UK) Ltd) *
Water Industry Commission for Scotland
Haven Products Ltd *
* Closed to new members

Other Admission Bodies with Pensioners and/or Deferred Members
Alsorts
Open Secret
Plus
Central Scotland Council for Regional Equality
Stirling University
Waterwatch Scotland