

FALKIRK COUNCIL  
PENSION FUND  
AUDITED  
ANNUAL REPORT  
& ACCOUNTS  
2018-19



Falkirk Council



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# Introduction to the Pension Fund Accounts

## 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 2018/19 Annual Report and Statement of Accounts.

The dominating news story of 2018/19 was (and continues to be) the conundrum of Brexit and the struggles of the UK Government to deliver a solution which is both acceptable to EU partners and which commands a majority in the House of Commons.

As the business community has looked on with increasing concern, financial markets have had to learn to live with the uncertainty. A sharp market sell-off in late 2018, precipitated by concern around US/Chinese Trade wars and a possible US recession, added to the volatility. Whilst markets have since recovered some of the lost ground, it was a timely reminder that the road to improved funding levels is rarely a smooth one and a policy of investing prudently in a broad range of asset classes, including equities, bonds, property and infrastructure is a good insurance against the mood swings of financial markets which tend to be exaggerated in times of political and economic uncertainty. Despite these considerable headwinds, the Fund managed to deliver a respectable return during the year of 8.5%, beating its benchmark by 1.7%.

Consideration of asset allocation has been an important aspect of the Fund's work during 2018/19 with a review of Fund investment strategy taking place to ensure that the Fund's risk and return objectives are consistent with its funding needs. The outcome of the review indicated that the Fund should target a return of gilts plus 2.8% in order to keep employer contributions at a stable and acceptable level and to enable there to be a good prospect of fully funded status being achieved over a 20 year cycle – the funding level at March 2019 being a healthy 92%.

The review of investment strategy was undertaken in conjunction with the Lothian and Fife Pension Funds. The Falkirk Fund has committed to working closely with Lothian and Fife in order to improve resilience, generate efficiencies through resource sharing and to deliver better outcomes for members and Fund employers generally. With the three Funds having agreed both a common set of investment principles and similar investment strategies, significant and exciting collaborative opportunities lie ahead.

Mention of collaboration reminds me that an important review on the future structure of Scottish Local Government Pension Funds has been launched during 2018/19 by the Scheme Advisory Board (SAB). This is to establish whether a change in the structure of the Funds (e.g. through pooling or merging assets) would lead to improved outcomes for Fund stakeholders. Employers, Funds and Trade Unions were invited to respond to a consultation conducted by the Pensions Institute during 2018. Falkirk's response was that a three fund model (merging the existing 11 funds) would be the optimum solution, allowing the advantages of scale investing to be realised whilst still permitting the governance arrangements to contain a local dimension. The review is ongoing and we await the SAB's recommendation to the Cabinet Secretary with interest.

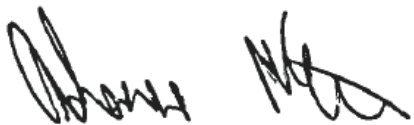
I know that, like myself, members of the Fund care deeply about the environment and about the way companies we invest in conduct themselves. The Fund continues to believe that engaging with companies and working with other like-minded investors, is a more effective means of influencing companies than simple divestment. For that reason, the Fund continues to support initiatives by its managers and by the Local Authority Pensions Funds Forum to improve reporting on climate change risks and to challenge companies on issues such as Executive Pay and Gender Representation on Boards.

Aside from the strategic developments of the past year, the Fund has been involved in a number of lesser, but nonetheless important initiatives. These included holding sessions with employers on the importance of data quality; meeting the new GDPR requirements for the safeguarding personal data; and working with Clackmannanshire and Stirling Councils on a mechanism to allow some of our smaller employers to exit the Fund on fair terms.

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.

# Introduction to the Pension Fund Accounts

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 the Pensions Committee**

# Introduction to the Pension Fund Accounts

## Statement from the Chair of the Pension Board



During the year under review, it fell to the Trade Union side representative to chair the Pension Board.

I believe that the representatives from both the employer and trade union sides, between them, bring a wide range of complimentary experience, knowledge and skills to the Pension Board and speaking as the Chair I find their insight and input invaluable.

After four years of stability, we have arrived at the end of the first four-year term of office for Trade Union representatives and the time has come for the Trade Union membership to decide who will represent them for the next four years. Contact will now be made and expressions of interest sought from activists and in due course the names of those representatives, be they new or familiar, will be known.

There will be challenges over the next four years around transparency of charges and environmental, social and governance issues including climate change, as well as the proposed changes to the structure of the LGPS. I am sure that the Board and Committee will deal with these challenges in the same diligent manner that they have met the challenges of the last four years and that Falkirk Council Pension Fund will continue to develop and grow in the best interests of its members.

A handwritten signature in black ink, appearing to read 'Susan Crook'. The signature is written in a cursive style with a large initial 'S'.

**Susan Crook**  
Chair of the Pension Board

# Introduction to the Pension Fund Accounts

## Contact Us

General enquiries about this document:

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Fax:  
E-mail:

Pensions Manager  
01324 506333  
01324 506363  
pensions@falkirk.gov.uk

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General enquiries about pension benefits:

Tel:  
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E-mail:  
Post:

Falkirk Council Pension Fund  
01324 506329  
01324 506363  
pensions@falkirk.gov.uk  
Pensions Section  
PO Box 14882  
Falkirk Council  
Municipal Buildings  
Falkirk  
FK1 5ZF

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

General Enquiries:  
Retirement/Death Enquiries:  
Strategic and Policy matters:  
Accounting and Investment matters:  
Projects and Systems:

01324 506329  
01324 506325  
01324 506333  
01324 506338  
01324 506337

Opening hours:

Monday to Friday, 9.00am – 5.00pm

Websites:

[www.falkirkpensionfund.org](http://www.falkirkpensionfund.org)  
[www.scotlgps2015.org](http://www.scotlgps2015.org)

Email:

pensions@falkirk.gov.uk  
investments@falkirk.gov.uk

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.

# Introduction to the Pension Fund Accounts

## Management of the Fund

|                                |   |
|--------------------------------|---|
| <b>Administering Authority</b> | Falkirk Council, Municipal Buildings<br>West Bridge Street, Falkirk, FK1 5RS    |
| <b>Scheme Administrators</b>   | Falkirk Council In House Pensions Team  |
| <b>Fund Officers</b>           | Bryan Smail, Chief Finance Officer<br>Alastair McGirr, Pensions Manager         |
| <b>Legal Advisors</b>          | Falkirk Council Legal Services<br>Lothian Pension Fund (Secondment Arrangement) |
| <b>Fund Actuary</b>            | Hymans Robertson LLP  |
| <b>Fund Custodian</b>          | The Northern Trust Company  |
| <b>Performance Measurement</b> | The Northern Trust Company<br>Portfolio Evaluation                              |
| <b>Investment Advisors</b>     | Joint Investment Strategy Panel<br>Scott Jamieson<br>Gordon Bagot               |
| <b>Bankers</b>                 | The Royal Bank of Scotland<br>The Northern Trust Company                        |
| <b>AVC Providers</b>           | Prudential<br>Standard Life   |
| <b>External Auditor</b>        | Ernst and Young LLP<br>2 St Peter's Square<br>Manchester, M2 3DF                |

## Investment Managers

|                                       |  |
|---------------------------------------|--|
| <b>Aberdeen Standard Investments</b>  |  |
| <b>Barings</b>                        |  |
| <b>Baillie Gifford</b>                |  |
| <b>FIM Services Ltd</b>               |  |
| <b>Harbert Management Corporation</b> |  |
| <b>M&amp;G Investments</b>            |  |
| <b>KKR</b>                            |  |
| <b>Ancala Partners</b>                |  |
| <b>Blackrock</b>                      |  |
| <b>Dalmore Capital</b>                |  |
| <b>UBS/Greensands</b>                 |  |

# Introduction to the Pension Fund Accounts

Hearthstone Investments



Newton Investment Management



Wilshire Associates



Alcentra



Brookfield



Equitix Investment Management Ltd



GCM Grosvenor



InfraRed Capital Partners



Legal & General Investment Management



Schroders Investment Management





# Introduction to the Pension Fund Accounts

## Annual Report and Accounts

This is the Annual Report and Accounts for the Falkirk Council Pension Fund for 2018/19.

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

## Performance Headlines

|                                 | 2016/17     | 2017/18     | 2018/19                      |
|---------------------------------|-------------|-------------|------------------------------|
| <b>Funding Level</b>            | 92%         | 91%         | 92%                          |
| <b>*Admin Cost per member</b>   | £18.11      | £22.32      | £22.41                       |
| <b>*Total Cost per member</b>   | £340.13     | £336.86     | £366.88                      |
| <b>#Total Costs (£000's)</b>    | £10,931     | £11,305     | £12,707                      |
| <b>Investment Return</b>        | 20%         | 3.1%        | 8.5%                         |
| <b>Benchmark Outperformance</b> | 1.6%        | 0.6%        | 1.7%                         |
| <b>Audit Outcome</b>            | Unqualified | Unqualified | Outcome awaited<br>Sept 2019 |

\* Costs per member updated for 2016/17 and 2017/18 to reflect the inclusion of undecided leavers in the total membership

# Further information about Total Costs can be found in Notes 11 and 11a on [page 65](#)

## About the Falkirk Fund

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

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

The Fund operates under the terms of the Local Government Pension Scheme which is a public sector pension arrangement governed by the Public Service Pensions Act 2013. Scheme membership is made up of active, deferred and pensioner members. To join the scheme as an active member, a person must be employed by a local authority or by a designated body and not be entitled to join another public 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 92](#).

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.

# Introduction to the Pension Fund Accounts

## About the Local Government Pension Scheme (LGPS)

- The LGPS is a nationwide pension arrangement for persons working in local government and is one of the largest schemes in the UK with over 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 LGPS (Scotland) is the version of the Scheme which applies to local authorities in Scotland. Other versions apply in England and Wales and in Northern Ireland.
- The Scheme consists of around 100 regional pension funds across the UK – one of which is the Falkirk Council Pension Fund.
- The LGPS is a funded scheme, which means monies are being set aside to pay for benefits as they fall due, thus helping to reduce the costs falling on future generations.
- The LGPS is a defined benefit scheme providing a range of high quality inflation linked benefits based on members' salaries and their years' of scheme membership. Unlike other forms of pension provision, benefits do not depend on investment performance.
- For more information about LGPS (Scotland), please visit [www.falkirkpensionfund.org](http://www.falkirkpensionfund.org) or [www.scotlgps2015.org](http://www.scotlgps2015.org).



## Management Commentary

### Overview

After a year in which successive waves of political and economic turbulence held centre stage, the Fund ended 2018/19 in a healthy state. Asset values approached £2.5bn and in spite of the financial market mood swings, the Fund achieved a return of 8.5% on its investments giving an estimated funding level of 92%. We now have more active, deferred and pensioner members (34,635) than ever before with the Fund playing an increasingly important role in supporting the economic wellbeing of our members who live mainly in Central Scotland but in some cases are located across the length and breadth of Scotland and beyond.

The day to day running of the Fund is carried out by the Pensions Section whose key objectives are:

- to provide an efficient and cost effective service that meets members' needs
- to safeguard and undertake the prudent investment of Fund assets, and
- to ensure good governance of the Fund in compliance with statutory requirements

### Business Model

The 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 work of the section encompasses the following areas of activity:

- Membership and Benefits Administration
- Investment Management
- Governance and Risk Management
- 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 Administration Section on [page 25](#).

**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 revised governance arrangements, the Committee now sets the investment strategy but delegates its implementation to the Chief Finance Officer who in turn receives advice from a Joint Investment Strategy Panel (JISP). More Information about the Fund's investment management arrangements is given on [page 33](#).

**Governance and Risk Management** is the responsibility of 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 Fund Governance can be found on [page 14](#). Information on Risk Management can be found on [page 47](#).

**Funding** is dealt with 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](http://www.falkirkpensionfund.org)), through members' mailshots, and by messaging pensioners via their regular pension advice slips.

During 2018/19, the Fund has undertaken some important strategic and developmental work, details of which are reported in the rest of the management commentary.

### Consultation into Scheme Structure

Arguably, the most significant event of the Scottish LGPS pensions year was the consultation into the structure of the Scheme. Conceivably, the consultation may herald the dawn of a radical shake up in the Scottish fund structure with fewer funds in existence. Or, it may leave Scottish funds broadly as they are, but with an imperative to work more closely together.

# Management Commentary

In response to the consultation, the Fund concluded that a merged structure of three “super funds” was the optimum outcome. This was predicated on the potential for fee savings from aggregating investments and the prospect of a more sustainable and resilient model for the LGPS contributors and pensioners of the future.

The response to the consultation can be found on the Scottish Local Government Pension Scheme Advisory Board website.

[Structure Review – Consultation Responses | LGPSAB](#)

## Scheme Changes

During the year, we saw the introduction of the Local Government Pension Scheme (Scotland) Regulations 2018 - a consolidation of the Local Government Pension Scheme (Scotland) Regulations 2014 and amendment Regulations made in 2015 and 2016. The consolidation also introduced the following changes to the Scheme:

- giving members the right to “cash in” their AVC pot once they attain age 55 without having to retire
- giving administering authorities more flexibility in managing the liabilities of employers who leave the Scheme
- giving active members in the Scheme on or after 1 June 2018 the unconditional right to take their benefits on retirement from age 55

Although the changes appeared relatively minor, they did require some adjustments to be made to our business processes and also led to employers having to review their discretionary policies.

## Governance and Risk

During the year, we took the opportunity to bolster our Risk Management arrangements by introducing a Risk management policy and committing to twice yearly formal reviews of the Risk Register. We also updated our Training Policy to clearly articulate the knowledge and understanding required of those charged with Fund governance.

## Paying for Benefits

The Fund’s funding level has remained broadly unchanged from the last valuation in 31 March 2017 and from the estimated position at 31 March 2018.

The next valuation is scheduled for 31 March 2020. At the time of writing, we expect, as proposed by HM Treasury, valuations to move to a four yearly cycle. This may lead to a greater variability in funding levels between valuations and ultimately greater movement in contribution rates. For most employers, however, we allow contribution changes to be introduced gradually in an effort to help employers control their costs. We will continue to work closely with our Actuary to control any additional volatility.

More information on the Fund’s Funding arrangements can be found in the Note 19 on [page 78](#).

## Investment Policy

During 2018/19 a review of investment strategy was conducted and the findings approved by the Pensions Committee. The Committee also agreed a revised Statement of Investment Principles (SIPs) which mirrored the SIPs agreed by the Fife and Lothian Funds and has simplified the process by which collaborative investments can be undertaken between the Falkirk, Fife and Lothian Funds. The Committee was supported in its deliberations by the Fund Actuary and members of the Joint investment Strategy Panel.

More information on the Investment Policy and Investment Performance can be found on [pages 33](#) and [38](#).

## Small Admission Bodies Initiative

The current economic environment and ongoing improvements in life expectancy, has, along with the range of benefits provided by the Scheme, made it more expensive to fund.

Against this backdrop, a number of our smaller admission bodies raised concerns about the employer contribution rate that they were having to pay following the 2017 Fund valuation.

With the help of the Fund Actuary and the agreement of Clackmannanshire, Falkirk and Stirling Councils, a solution was found during 2018/19 to enable those employers with concerns about their contribution rate to exit the Fund without having to make an unaffordable cessation payment.

The three Councils agreed to underwrite the employer liabilities in relation to 258 members from the exiting employers in return for reallocation of assets from these employers. As a consequence, Central Carers Association, Central Scotland Regional Equality Council, Ceteris, Seamab School and Stirling Enterprise have all exited the Scheme under this arrangement. The employers were all supported by the Fund actuary in making alternative pension arrangements for their staff.

## General Data Protection Regulations

The General Data Protection Regulations were introduced with effect from 25 May 2018. In recognition of the new regulations and the imperativeness of safeguarding personal data, we concluded data sharing protocols with all Fund employers and our main service providers. In addition, we revised our Privacy Notice (uploaded to our website) and have increased mandatory Data Protection training to all staff. There was no data breaches during the year.

## Data Quality Standards

The production of member benefit statements by 31 August each year is something of a bellwether in terms of customer care with material failure to meet the deadline being a reportable breach to the Pensions Regulator. During the year, the Fund reported one employer for failing to submit employee data on time.

In order to highlight the importance of timely and accurate data being received by the Fund, the Pensions Section hosted a half day data quality seminar for employers and invited a representative from the Pensions Regulator to address delegates.

The Regulator requires that Funds take a pro-active approach to improving data quality. The Fund undertook a data scoring exercise in Autumn 2018. This disclosed that the Fund had a data score of 91% for Common data and 76.1% for Scheme Specific Data. The scores reflect some gaps in the way data has been collected historically but does not impact materially on member benefits. The Fund will nevertheless strive to improve on these scores in the coming year.

## GMP Reconciliation

The exercise to reconcile HM Revenue's Guaranteed Minimum Pension data with that of the Fund continued during 2018/19 with data matching being undertaken by Heywood and their associates ITM. Final results are expected later in 2019.

## Remuneration Report

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 24a on [page 81](#).

## Outlook for 2019/20

The outlook for 2019/20 is largely coloured by the Brexit saga and ongoing structural review of LGPS Funds.

Since the EU referendum in 2016, the UK Government has struggled to bring forward an exit strategy which commands the support of the UK Parliament. The stalemate has created uncertainty within the UK business community and has had a negative impact on the UK economy. The result has been a marked fall in the value of Sterling relative to the Dollar, Euro and other major global currencies, as well as pressure on UK asset values. The uncertainty is scheduled to continue well into 2019/20 as the next deadline for the UK to leave - 31<sup>st</sup> October - looms ever closer and competing political interests strive to realise Brexit or to block it in part or in whole.

The Fund recognises the dangers posed by these uncertainties and has added Brexit as a risk in its risk register. Brexit continues to be discussed at the quarterly meetings of the Joint Investment Strategy Panel with the focus on whether any tactical investment change is warranted. Discussions on Brexit will also continue to be a feature of exchanges with external investment managers.

In mitigation of the risks, many of the Fund's assets are overseas assets, denominated in foreign currency, in which case a fall in Sterling is mildly beneficial. Moreover, Brexit is just one of a number of geo-political events, such as US/China Trade War, the 2020 US Presidential elections and climate change that can be expected to influence asset valuations in the coming months. Undeniably, should a "no-deal" Brexit take place, there is likely to be - at a minimum - short term economic turbulence; an increased risk of recession; and yet further pressure on UK assets. The Fund is alert to these possibilities and will continue to monitor developments closely.

## Management Commentary

The ongoing structural review of Scottish LGPS Funds has created a more existential type of uncertainty for the Fund. Whilst this not an ideal scenario in which to map out our future business requirements, we will still be working with employers and members to improve stakeholder experience. We will look to do this by increasing the number of posts within the Pensions team and by using the opportunities provided by new technology. We also look forward to working more closely with the Fife and Lothian Pension Funds with a view to taking forward the outcomes of our review of investment strategy and consolidate on the Fund's recent positive performance.



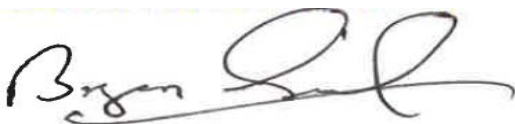
**Convener of the Pensions Committee**

**Date 26/09/2019**



**Chief Executive of Falkirk Council**

**Date 26/09/2019**



**Chief Finance Officer of Falkirk Council**

**Date 26/09/2019**

## 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 contributions from scheme members and employers are invested prudently and properly accounted for.

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.

The governance arrangements for the Fund are explained in the Governance Policy document which also contains the statutory Governance Compliance Statement. An Annual Governance Statement makes reference to the governance mechanisms and internal controls specifically in place during the relevant period. Governance arrangements are periodically reviewed and subject to consultation with stakeholders to ensure they remain relevant and effective.

## Annual Governance Statement

The Local Authority Accounts (Scotland) Regulations 2014 require that:

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

The Annual Governance Statement in respect of 2018/19 is set out in full on [page 83](#).

## Governance Compliance Statement

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

The Fund's Governance Compliance Statement is set out in full on [page 86](#).

## 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 normally meets on a quarterly basis with meetings being held mostly in public session. During 2018/19, the Committee held five meetings, all of which were joint meetings with the Pension Board. (An additional meeting over and above the normal quarterly cycle of meetings was held to discuss the structural review of the Local Government Pension Scheme in Scotland).

Members of the Committee are as follows:

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

The pensioner representative, Mr Ian McLean, stood down towards the end of the 2018/19 session. The selection process for a replacement is underway. There was no new appointments to the Committee or Board during the year.

The Committee's key responsibilities are:

- to oversee the administration of the Fund
- to establish and review investment policy
- to set the strategic asset allocation

- to monitor the implementation of investment strategy
- to take proper advice in relation to investment matters
- to formulate and monitor a funding policy for the Fund
- to approve the Pension Fund Budget and monitor performance against outturn
- to approve the Annual Report and Accounts
- to approve the Fund's Audit programme
- to approve the Fund's training arrangements

The Committee is supported at its meetings by officers and professional advisers. External Auditors are invariably in attendance at Committee meetings. Attendance is recorded in the Council Minutes.

## Pension Board

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

The Pension Board comprises eight members - four 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 2015. 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 three main Unions representing Scheme members, namely Unison, Unite and GMB. The four employer representatives are drawn from the largest Fund employers not already represented on the Pensions Committee. Board members are appointed for a four year term but may be reappointed to serve a further term in accordance with agreed timescales.

Board Members during 2018/19 were as follows:

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

Details of Committee and Board members who are also members of the Scheme is given on [page 81](#).



## Attendance at Committee and Board meetings

The good governance of the Fund relies on the Joint meetings of the Committee and Board being adequately attended. Under Council policy, members are expected to attend the majority of scheduled meetings. During 2018/19, all meetings were quorate and able to be undertaken as intended. The table below gives the individual attendance details of Committee and Board members during the year:

|                           |                     | Committee and Board Meetings 2018/19 |            |            |            |            |
|---------------------------|---------------------|--------------------------------------|------------|------------|------------|------------|
|                           | Date of Appointment | 21/06/2019                           | 23/08/2019 | 20/09/2018 | 06/12/2018 | 21/03/2019 |
| <b>Pensions Committee</b> |                     |                                      |            |            |            |            |
| Adanna McCue (Convener)   | 04/05/2017          | ✓                                    | ✓          | ✓          | ✓          | ✓          |
| Donald Balsillie          | 04/05/2017          |                                      |            | ✓          | ✓          |            |
| James Blackwood           | 03/05/2012          | ✓                                    | ✓          | ✓          | ✓          | ✓          |
| Billy Buchanan            | 04/05/2017          |                                      | ✓          | ✓          |            | ✓          |
| Niall Coleman             | 15/02/2018          | ✓                                    | ✓          |            | ✓          | ✓          |
| Andy Douglas              | 05/09/2013          |                                      | ✓          |            | ✓          |            |
| Ian McLean*               | 26/06/2015          | ✓                                    | ✓          | ✓          | ✓          |            |
| John Patrick              | 08/08/2000          | ✓                                    | ✓          | ✓          | ✓          |            |
| Pat Reid                  | 04/05/2017          | ✓                                    | ✓          | ✓          | ✓          |            |
| <b>Pension Board</b>      |                     |                                      |            |            |            |            |
| Susan Crook (Chair) (U)   | 26/06/2015          | ✓                                    | ✓          | ✓          | ✓          | ✓          |
| Sandy Harrower (U)        | 26/06/2015          | ✓                                    | ✓          |            | ✓          | ✓          |
| Gordon Irvine (U)         | 26/06/2016          | ✓                                    |            |            |            |            |
| Tommy Murphy (U)          | 26/06/2016          | ✓                                    | ✓          | ✓          |            |            |
| Margaret Brisley (E)      | 04/05/2017          |                                      |            |            |            |            |
| Simon Hunt (E)            | 14/09/2016          | ✓                                    | ✓          | ✓          | ✓          |            |
| Ed Morrison (E)           | 26/06/2015          |                                      | ✓          |            | ✓          |            |
| Jennifer Welsh (E)        | 26/06/2015          |                                      | ✓          | ✓          | ✓          |            |

U - Trade Union nominee    E -Employer nominee  
 \*Ian McLean resigned on the 28/12/2018

## Training for those with Governance Responsibilities

The Fund's training policy, which was refreshed during 2018/19, recognises that those involved in the governance of the Fund should have the necessary level of skills and knowledge to allow them to carry out their duties effectively.

Training is provided through a variety of means, including:

- seminars and conferences offered by industry-wide bodies
- training as part of formal meetings provided by Fund officers and/or external advisers
- circulation of investment manager reports
- access to the Fund website and secure portal for up to date information
- knowledge assessment questionnaires

During 2018/19, training events have included:

| Date       | Event   | Location  |
|------------|---|-----------|
| 12/04/2018 | Annual Employer Conference – Callendar House                        | Falkirk   |
| 23/08/2018 | Investment Matters – Council Offices                                | Falkirk   |
| 10/09/2018 | IGG/SPLG LGPS Seminar - COSLA Offices                               | Edinburgh |
| 23/10/2018 | LGC Investment Conference – George Hotel                            | Edinburgh |
| 19/11/2018 | Joint Investment Strategy Seminar with Lothian Fund - COSLA Offices | Edinburgh |

Further insight for those responsible for the governance of the Fund 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 2019/20 will continue to be broadly based in order to support member decision making.

## Conflict of interests

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

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

There is a standing agenda item at each Pensions Committee and Board meeting for Members to declare such interests. Any declarations are 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 2018/19, the Fund responded to 25 Freedom of Information requests, the majority of which related to the composition of the Fund's assets.

## Documentation

The following documents can be viewed or downloaded from the Falkirk Council Pension Fund website at [www.falkirkpensionfund.org](http://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 Pensions Section, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS.

# Funding Strategy Update

## Overview

The Funding Strategy Statement is the formal record of how the Fund will meet its obligations to pay benefits. It contains details of the Fund's funding objectives, including its approach to balancing the conflicting aims of prudence and contribution rate affordability. The Funding Strategy Statement is intended to give stakeholders, and employers in particular reassurance that individual funding positions are being determined in a fair and consistent way. The last review of the Funding Strategy Statement took place prior to the completion of the 2017 Valuation exercise in March 2018. The next review is expected to be carried out after 2020 Valuation.

The key objectives of the strategy are:

- for the Fund to be fully funded (i.e. assets held are 100% of liabilities)
- 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

The investment return that the Fund is targeting in order to meet its funding objective is a return on gilts plus 2.8% p.a. The Fund's investment strategy is arranged so as to deliver this level of return. Performance towards meeting the return target is monitored on a quarterly basis by the Fund's investment advisers and by the Pensions Committee.

The Funding Strategy Statement constitutes the framework within which the actuary carries out the three yearly Fund valuation in order to set employer contribution rates.

Under the strategy, the actuary sets employer rates using a risk based approach, having regard to the following:

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

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.

For employers with strong covenants (i.e. the ability and willingness to make contributions) the Fund allows contribution increases (or decreases) to be implemented in a graduated manner to minimise budgeting issues that can arise with sharp changes in employer contribution rates.

More information on the actuarial position of the Fund can be found in the Actuarial Update on the next page.

## Overview

Under the rules of the Scheme, an actuarial valuation of the Fund must take place every three years to determine how much money needs to be paid into the Fund by employers to maintain its solvency (and allow benefits to continue to be paid both now and in the future).

The most recent formal valuation of the Fund took place at 31 March 2017 and set the contribution rates to be paid by Fund employers for the 3 years between 1 April 2018 and 31 March 2021.

## Valuation as at 31 March 2017

The 2017 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:

|                                    | 2014 Valuation | 2017 Valuation |
|------------------------------------|----------------|----------------|
| <b>Assets</b>                      | £1,577m        | <b>£2,219m</b> |
| <b>Liabilities</b>                 | £1,860m        | <b>£2,403m</b> |
| <b>Funding Surplus / (Deficit)</b> | (£283m)        | <b>(£184m)</b> |
| <b>Funding Level</b>               | 85%            | <b>92%</b>     |
| <b>Future Service Cost</b>         | 17.9%          | <b>18.7%</b>   |

From April 2014 to March 2017, the Fund achieved an aggregate return of 38.1%. Set against this, however, was an increase in liabilities due to a sharp fall in the discount rate – the key metric used to value liabilities.

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

|                                   | 2014 Valuation | 2017 Valuation |
|-----------------------------------|----------------|----------------|
| <b>Return on Long Dated Gilts</b> | 3.5%           | <b>1.7%</b>    |
| <b>Asset Outperformance Value</b> | 1.6%           | <b>1.8%</b>    |
| <b>Discount Rate</b>              | 5.1%           | <b>3.5%</b>    |

The lower discount rate of 3.5%, implying lower future investment returns lead to a higher value placed on liabilities and meant that employers’ contribution rates were generally increased as a result of the 2017 valuation.

Other important metrics in the assessment of Fund liabilities are price and salary inflation.

Benefits in payment are increased in line with price inflation, whilst salary inflation impacts on the liabilities of active members.

At the 2017 valuation, the assumption for price inflation was derived from the market, whereas the assumption for salary inflation was actuarially estimated. The estimate of salary inflation reflected the apparent muted nature of pay growth in the public sector and the reduction in members with final salary benefits.

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

|                         | 2014 Valuation | 2017 Valuation |
|-------------------------|----------------|----------------|
| <b>Price Inflation</b>  | 2.7%           | <b>2.4%</b>    |
| <b>Salary Inflation</b> | 4.0%           | <b>2.9%</b>    |

## Actuarial Update

Life expectancy is also a key factor in assessing fund liabilities. The 2017 valuation assumptions reflected the fact that the steady improvement in longevity experienced in prior years appeared 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 |
|------------------------------|----------------|----------------|
| <b>Male Pensioners</b>       | 22.1 years     | 21.2 years     |
| <b>Male Non Pensioners</b>   | 24.3 years     | 22.7 years     |
| <b>Female Pensioners</b>     | 23.8 years     | 23.7 years     |
| <b>Female Non Pensioners</b> | 26.3 years     | 25.5 years     |

Full details of individual contribution rates paid by employers and the actuarial assumptions adopted for the 2017 Valuation are contained in the [Valuation Report](#).

### Current Funding Position

The movement in assets and liabilities since the 2017 Valuation is summarised in the table below:

|                            | 31/03/2017 | 31/03/2018 | 31/03/2019 | Change since 31/03/2017 |
|----------------------------|------------|------------|------------|-------------------------|
| <b>Fund Assets</b>         | £2,219m    | £2,289m    | £2,490m    | +£271m                  |
| <b>Fund Liabilities</b>    | £2,403m    | £2,517m    | £2,708m    | +£305m                  |
| <b>Surplus / (Deficit)</b> | (£184m)    | (£228m)    | (£218m)    | +(£34m)                 |
| <b>Funding Level</b>       | <b>92%</b> | <b>91%</b> | <b>92%</b> | -                       |

The increase in Fund assets has been driven by the strong investment returns and by the increased contributions being paid by Fund employers as a result of the 2017 triennial valuation.

Fund liabilities at 31/03/2018 and 31/03/2019 have been estimated by the Fund Actuary on the basis of rolling forward cash flows and investment returns from the 2017 valuation. The increase in liabilities of £305m is mainly attributable to the continuing trend of declining gilt yields. The market yield on nominal gilts moving from 1.65% to 1.48% over the two year span.

For avoidance of doubt, the liability figure of £2.7bn does not appear in the financial statements as this includes an estimate of future payments to be made from the Fund whereas the statements only take account of the Fund's obligations to pay pensions as at 31 March 2019.

# Actuarial Update

The movement of assets and liabilities has resulted in the funding level remaining broadly unchanged, although as the table below shows there has been significant volatility since 2017, reflecting the movement in global financial markets:



An actuarial statement prepared by the Fund Actuary in respect of 2018/19 can be viewed at [Appendix 1 on page 90](#).

The next valuation of the Fund will be as at 31 March 2020 and is expected to set employer contribution rates for the three years from 1 April 2021, although the UK Government is considering changing public sector schemes valuations to a four yearly cycle.

# Financial Performance

## Financial Performance

This section reports primarily on the Fund's income, expenditure and cash flows during 2018/19.

### Annual Budget

The Pensions team prepare a Fund Budget annually which is subject to the approval of the Pensions Committee.

The budget focuses on controllable expenditures and therefore excludes benefit payments and transfers of pensions out of the Fund. Similarly, on the income side, contributions receivable and pension transfers in to the Fund are also excluded. As a result, the actual cost in the table below won't reconcile to note 11.

A summary of the actual and budgeted expenditure for 2018/19, together with the approved budget for 2019/20, is shown in the table below. More information about Fund costs are given in Notes 11 and 11a on page 65.

| Pension Fund                          | Budget<br>18/19  | Actuals<br>18/19 | Variance<br>18/19 | Budget<br>19/20  |
|---------------------------------------|------------------|------------------|-------------------|------------------|
| <b>Benefits Administration</b>        |                  |                  |                   |                  |
| Employee Expenses                     | 461,700          | 421,291          | (40,409)          | 571,990          |
| IT Costs                              | 213,830          | 212,931          | (899)             | 224,290          |
| GMP Reconciliation                    | 44,000           | 35,440           | (8,560)           | 50,000           |
| Other                                 | 108,470          | 106,242          | (2,228)           | 119,720          |
| <b>Total</b>                          | <b>828,000</b>   | <b>775,904</b>   | <b>(52,096)</b>   | <b>966,000</b>   |
| <b>Oversight and Governance Costs</b> |                  |                  |                   |                  |
| Employee Expenses                     | 138,950          | 118,725          | (20,225)          | 146,010          |
| Lothian Shared Services               | 0                | 0                | 0                 | 573,600          |
| Lothian Collaboration                 | 215,000          | 214,528          | (472)             | 0                |
| Actuarial Fees                        | 140,000          | 134,597          | (5,403)           | 100,000          |
| Tax Advice and Legal Fees             | 97,840           | 89,136           | (8,704)           | 100,240          |
| Investment Advisory                   | 33,000           | 20,978           | (12,022)          | 0                |
| Performance Measurement               | 50,000           | 50,517           | 517               | 85,000           |
| Other                                 | 46,710           | 12,836           | (33,874)          | 73,150           |
| <b>Total</b>                          | <b>721,500</b>   | <b>641,317</b>   | <b>(80,183)</b>   | <b>1,078,000</b> |
| <b>Investment Management</b>          |                  |                  |                   |                  |
| Managers Fees                         | 5,775,500        | 5,417,244        | (358,256)         | 5,680,500        |
| Custodian Costs                       | 125,000          | 100,374          | (24,626)          | 125,000          |
| Aborted Deal Costs                    | 100,000          | 4,184            | (95,816)          | 100,000          |
| Other                                 | 125,000          | 0                | (125,000)         | 5,000            |
| <b>Total</b>                          | <b>6,125,500</b> | <b>5,521,802</b> | <b>(603,698)</b>  | <b>5,910,500</b> |
| <b>Pension Fund Total</b>             | <b>7,675,000</b> | <b>6,939,023</b> | <b>(735,977)</b>  | <b>7,954,500</b> |

The main variances between the budgeted and actual amounts relate to:

| Item  | Under or Overspend | Comment  |
|---|--------------------|--|
| <b>Employee Expenses</b>                      | Underspend         | Delay in recruitment pending relocation of Pensions team   |
| <b>Manager Fees</b>                           | Underspend         | As fees are based on the market value of assets under management, actuals will invariably differ from budget |
| <b>Oversight and Governance - Other Costs</b> | Underspend         | Costs were reduced by income from rechargeable work carried out by actuary                                   |

# Financial Performance

|                    |            |   |
|--------------------|------------|---|
| <b>Abort Costs</b> | Underspend | Fund had only to cover one set of abort costs (i.e. due diligence costs relating to an unsuccessful bid for infrastructure asset) |
|--------------------|------------|---|

The main changes being made in the Budget for 2019/20 are as follows:

| Item                               | Increase or Decrease | Comment  |
|------------------------------------|----------------------|--|
| <b>Benefits Administration</b>     | Increase             | 3% Council pay award due in 2019/20 and new posts in Pensions Section to address key person risk and improve service standards |
| <b>Oversight and Governance</b>    | Increase             | Transition from secondment arrangements with Lothian Pension Fund to a shared services model                                   |
| <b>Investment Management Costs</b> | Decrease             | Anticipated reduction in fees payable to external parties  |

## Contributions made to the Fund in 2018/19

During 2018/19, members and employers paid the following contributions:

| Scheduled Bodies                           | 18-19 Employees contribution in '000 | 18-19 Employers Contribution (inc. deficit) in '000 |
|--|--------------------------------------|---|
| Central Scotland Joint Valuation Board     | 86                                   | 288   |
| Clackmannanshire Council                   | 2,242                                | 9,134   |
| Falkirk Council                            | 6,074                                | 22,651  |
| Forth Valley College                       | 454                                  | 1,594   |
| Police Scotland (ex Central)               | 203                                  | 727   |
| Scot Fire & Rescue                         | 55                                   | 198   |
| Scottish Childrens Reporter Administration | 810                                  | 2,457   |
| Police Scotland (ex SPSA)                  | 142                                  | 474   |
| SEPA                                       | 2,848                                | 8,547   |
| Stirling Council                           | 3,677                                | 14,033  |
| Visit Scotland                             | 10                                   | 205   |
| <b>Total Scheduled Bodies</b>              | <b>16,601</b>                        | <b>60,308</b>                                       |
| <b>Admitted Bodies</b>                     |                                      |   |
| Active Stirling Trust                      | 171                                  | 426   |
| Alsorts                                    | 0                                    | 10  |
| Amey                                       | 6                                    | 41  |
| Ballikinrain School                        | 41                                   | 155   |
| Central Carers Association                 | 6                                    | 155   |
| Central Scotland Racial Equality Council   | 0                                    | 7   |
| Ceteris                                    | 35                                   | 189   |
| Colleges Scotland                          | 33                                   | 236   |
| Cowanes Hospital                           | 3                                    | 17  |
| Cromwell European Mgmt Services Ltd        | 2                                    | 0   |
| Dollar Academy Trust                       | 113                                  | 372   |
| Falkirk Community Trust                    | 462                                  | 1,706   |
| Forth & Oban Ltd (Stirling)                | 25                                   | 90  |
| Haven Products Limited                     | 5                                    | 25  |
| Mclaren Leisure Centre                     | 2                                    | 20  |
| Scottish Autism                            | 681                                  | 2,519   |
| Seamab School                              | 57                                   | 216   |
| Smith Art Gallery                          | 7                                    | 28  |
| Snowdon School Ltd                         | 24                                   | 93  |
| Stirling District Tourism Ltd              | 6                                    | 30  |
| Stirling Enterprise                        | 21                                   | 73  |
| Strathcarron Hospice                       | 298                                  | 1,059   |
| Thinkwhere                                 | 27                                   | 67  |



# Financial Performance

|                              |               |               |
|------------------------------|---------------|---------------|
| Water Industry Commission    | 94            | 317           |
| <b>Total Admitted Bodies</b> | <b>2,119</b>  | <b>7,849</b>  |
| <b>Fund total</b>            | <b>18,720</b> | <b>68,157</b> |

The total pensionable pay of members on which contributions were levied was £305m. This means that average member contributions were 6.1% of pay (5.9% in 2017-18) during the year and average employer contributions (exc. deficit repayment) were 21.5%. (19.8% for 2017-18). The increase in the employer average is attributable to the increased rate of contribution arising from the 2017 Fund Valuation.

During the year, there were only 3 instances of employers failing to remit contributions by the due date and none of these circumstance were deemed material nor was any interest for late payment charged due to the trivial nature of sums involved.

## Cashflow

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

| <b>Cash Flow Table (Net (withdrawals)/additions from dealing with members)</b> |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|
|  | <b>2014-15</b> | <b>2015-16</b> | <b>2016-17</b> | <b>2017-18</b> | <b>2018-19</b> |
|  | <b>in'000s</b> | <b>in'000s</b> | <b>in'000s</b> | <b>in'000s</b> | <b>in'000s</b> |
| <b>Contributions and transfers from other pension funds</b>                    | 81,425         | 81,893         | 87,401         | 83,880         | 92,754         |
| <b>Benefits and payments to and on account of leavers</b>                      | 62,077         | 65,372         | 68,991         | 74,918         | 78,461         |
| <b>Net cash flow</b>   | <b>19,348</b>  | <b>16,521</b>  | <b>18,410</b>  | <b>8,962</b>   | <b>14,293</b>  |

The analysis of inflows and outflows shows that the Fund remains in positive cash flow territory. The gap between what the Fund takes in and pays out from its dealings with members increased during 2018/19. This was due to 2018/19 being the first year in which increased employer contributions from the 2017 Fund Valuation became payable. Prior to 2018/19, the trend had been for the positive cash flow differential to be declining. This is likely to be the underlying trend going forward and reflects the increasing maturity of the Fund with larger numbers of deferred and pensioner members compare to active members; coupled with the tight fiscal environment of recruitment freezes; and employers pay settlements restricting growth in contribution income.

## Pension Payments and the National Fraud Initiative

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

The Fund participated in the exercise during 2018/19 with the results showing that in the main all pensions were being paid validly. There was one exception – a pensioner who had died in August 2018 and whose pension has continued to be paid. The overpayment is less than £500 and steps are ongoing to recover the monies.

The NFI exercise also revealed 4 deferred pensioners who had died without the Pensions Section having been notified. These cases are now being pursued to ensure payments are made to the appropriate beneficiaries.

## Conclusion

Other than the increase in aggregate employer contributions, there were no material movements in items of income and expenditure between 2017/18 and 2018/19.

# Scheme Administration

## About this Section

This Section of the Annual Report contains:

- Key Performance Indicators 2018/19
- How the Administration Service is organised and delivered
- Value for Money Statement
- Membership Information
- Administration Activity and Performance
- Communications
- Outlook

## Key Performance Indicators 2018/19

The aim of the Pension Section is to provide an efficient and cost effective administration service that meets stakeholders' needs. Performance is measured through a series of indicators:

| 2018/19  | Target      | Actual      |
|--|-------------|-------------|
| Audit of Annual Report and Accounts 2017-18          | Unqualified | Unqualified |
| Benefit Statements issued by 31 <sup>st</sup> August | 100%        | 80%*        |
| Contributions received within 19 days of month end   | 100%        | 99%         |
| Retirement lump sums paid within 15 days             | 90%         | 93%         |
| Monthly Pensioner Payroll Paid on time               | 100%        | 100%        |
| Pensions Increase processed with April Pension       | Meet Target | Met Target  |
| P60 documents issued by end May                      | Meet Target | Met Target  |

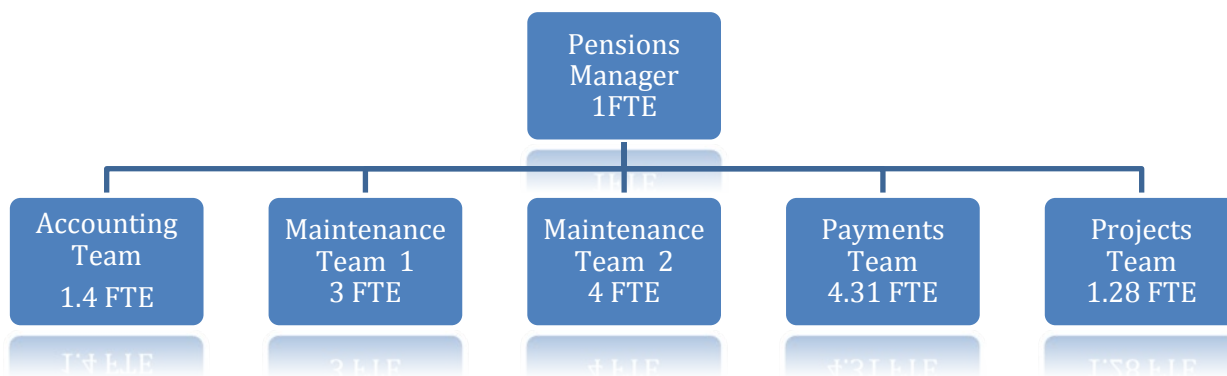
\* Number impacted by post August year end data submission from a Scheduled Body

## How the Administration Service is organised and delivered

Fund administration is undertaken by the Council's in-house Pensions Section, which is managed by the Pensions Manager who, in turn, reports to the Chief Finance Officer.

### Staffing

The Section has 16.5 budgeted full-time equivalent posts (including vacancies) 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. In 2018-19 the Section was made up as follows:



### Record Maintenance

Scheme records are administered by an experienced team using an industry standard computerised pensions administration system which is used by all LGPS Funds in Scotland. The system is reviewed regularly by the software vendor and updates and upgrades provided to ensure the system remains compliant.

All staff are required to complete an online Data Protection training annually as part of the Fund's commitment to ensuring that member data is held securely and that confidentiality is respected. No data security incidents took place during 2018/19.

# Scheme Administration

## Systems

The Administration team use the IT platforms and infrastructure provided by the ICT Section of the Council.

All Pensions Section staff have access to up to date computer hardware and operating systems with standard data security features. In addition to normal desktop software, the range of applications needed by the Section requires it to have access to the following systems:

| System         | Purpose                      |
|----------------|------------------------------|
| Altair         | Pensions Administration      |
| Altair         | Pensioner Payroll            |
| Integra        | Financial Information System |
| Bankline (RBS) | Fund Banking Information     |

To improve resilience, all senior members of the team are equipped with laptops as part of contingency arrangements and to facilitate more flexible working arrangements.

The Fund has been working with a number of constituent employers to enable them to make monthly electronic data submissions using a middleware application known as i-connect. So far 9 employers are filing their monthly data in this manner.

## Value for Money Statement

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

The Fund strives to deliver value for money by monitoring:

- costs against budget (see [page 22](#))
- year on year total and unit costs (see table below)
- performance statistics (see [page 31](#))
- success in completing key activities (see [page 25](#))

The Fund's total unit costs per member in 2018/19, split across the cost categories of investment management, administration and oversight and governance were as follows:



The breakdown of unit costs over the past five years is given below:

|                                       | 2014-15       | 2015-16       | 2016-17       | 2017-18       | 2018-19       |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Investment management expenses</b> |               |               |               |               |               |
| Total cost in (£000)                  | 9,783         | 9,394         | 9,791         | 10,053        | 11,290        |
| Total membership nos.*                | 30,119        | 31,198        | 32,138        | 33,560        | 34,635        |
| Sub cost per member £                 | <b>324.82</b> | <b>301.11</b> | <b>304.65</b> | <b>299.55</b> | <b>325.97</b> |
| <b>Administration costs</b>           |               |               |               |               |               |
| Total cost in (£000)                  | 750           | 855           | 582           | 749           | 776           |
| Total membership nos.*                | 30,119        | 31,198        | 32,138        | 33,560        | 34,635        |
| Sub cost per member £                 | <b>24.90</b>  | <b>27.41</b>  | <b>18.11</b>  | <b>22.32</b>  | <b>22.41</b>  |
| <b>Oversight and governance costs</b> |               |               |               |               |               |
| Total cost in (£000)                  | 392           | 524           | 558           | 503           | 641           |
| Total membership nos.*                | 30,119        | 31,198        | 32,138        | 33,560        | 34,635        |
| Sub cost per member £                 | <b>13.02</b>  | <b>16.80</b>  | <b>17.36</b>  | <b>14.99</b>  | <b>18.51</b>  |
| <b>Total cost per member £</b>        | <b>362.74</b> | <b>345.31</b> | <b>340.13</b> | <b>336.86</b> | <b>366.89</b> |

\* Membership numbers updated for inclusion of undecided leavers

# Scheme Administration

## Investment Cost Benchmarking

In 2018-19 the Fund participated in a cost benchmarking exercise undertaken by specialist firm CEM. CEM is an independent global benchmarking expert with a data base of 346 global pension funds, representing \$7.3 trillion in assets. This exercise compared the Fund's investment cost data for 2017/18 with a range of LGPS and non-LGPS peer comparators.

The results showed Fund's costs as 62 basis points of invested assets, which was slightly above the average benchmark cost of 59.5 basis points for similarly sized funds. However the 5-year net total return of 9.6% was above the CEM LGPS median of 8.6% and global median of 7.9%, implying that the Fund's additional investment costs had delivered added value. The higher investment cost is equivalent to around £600k, whereas the additional return equates to £25m based on the LGPS median return.

## Investment Cost Transparency

One of the Fund's core investment beliefs is that cost transparency is an important aid to decision-making and benefits Fund returns. The Fund therefore supports the work of various bodies to standardise and improve cost disclosure information including the Institutional Disclosure Working Group and Scheme Advisory Board of England and Wales. This remains a complex subject matter where specialist expertise is required to analyse data submissions and reach informed conclusions. It is hoped that the latest initiative, an online portal to allow Asset Managers to make their detailed costs available to Funds, will continue the process of improving overall cost visibility.

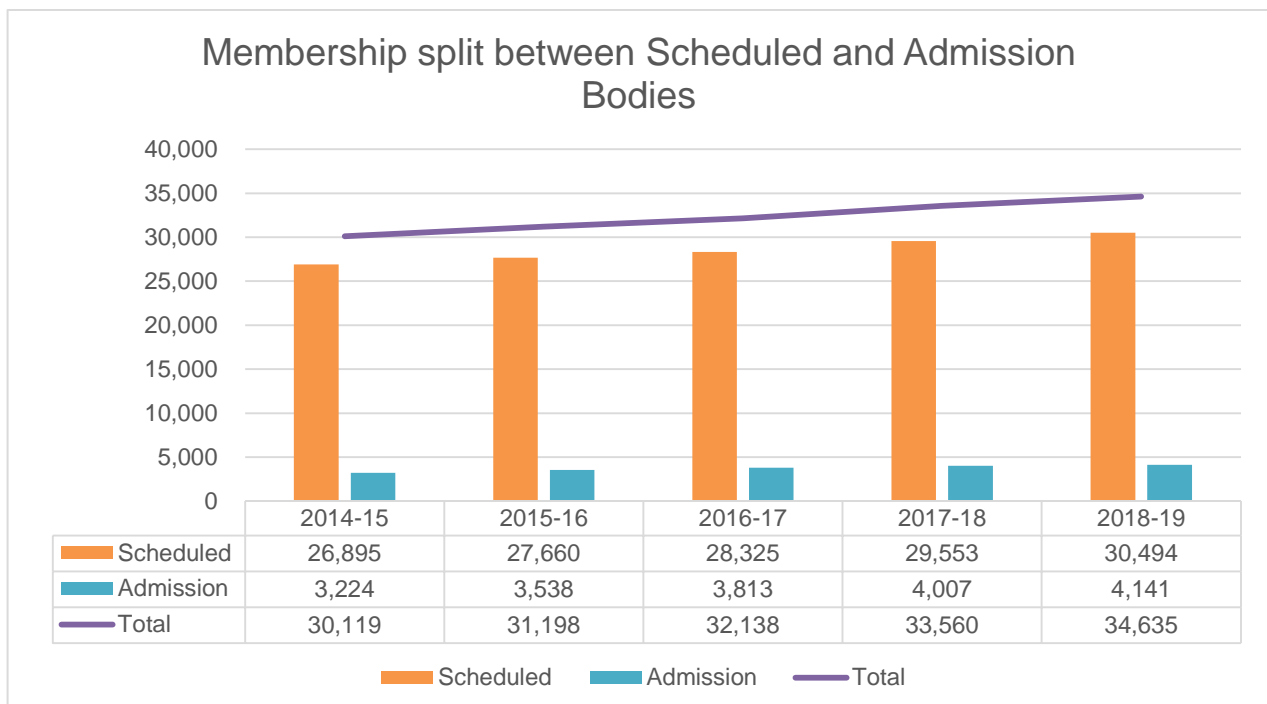
## Administration Cost Benchmarking

The CIPFA Scottish Directors of Finance Performance Indicators Report 2017/18 reveals that similarly sized Scottish LGPS Fund have an administration cost of between £20 and £30 per member. The Falkirk Fund's costs of £22.41 during 2018/19 are therefore not atypical.

## Membership Information

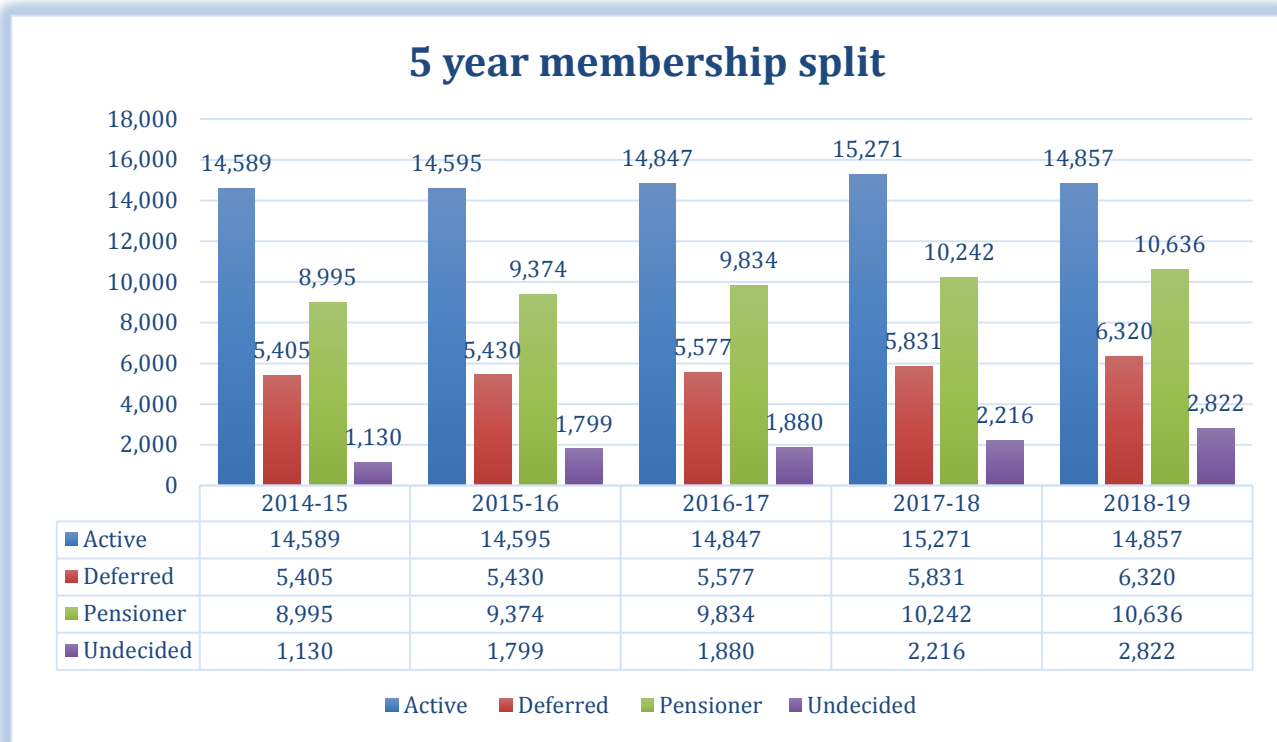
Fund membership numbers are most commonly impacted by persons joining or leaving the Scheme as part of normal staff turnover. From time to time, however, there can be more significant membership movements resulting from factors such as recruitment freezes, workforce reshaping, staff transfers, and Government initiatives (e.g. auto enrolment).

The first chart in this Section shows how total Fund membership (active, deferred, pensioner and undecided members) has changed over the past 5 years split between Scheduled and Admission Bodies. This shows that membership is increasing at between 3% and 4.5% per year. It also indicates that 90% of scheme members in the Fund work for Scheduled Bodies.



## Scheme Administration

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



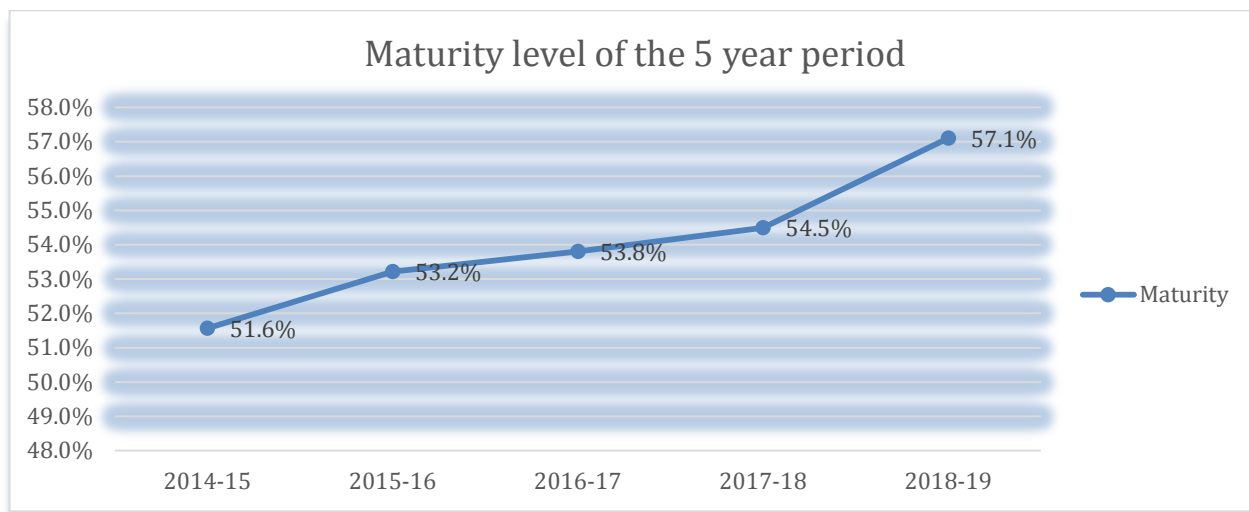
The chart shows that during 2018/19, active membership has declined and that deferred and pensioner membership has increased. This is primarily due to Council recruitment restrictions limiting the number of new members and early retirement initiatives boosting leaver numbers. A further trend is the increase in the number of undecided leavers which reflects the complexities in dealing with leavers who are multiple post holders or who have left one post and re-joined in a different role.

The increasing numbers of pensioner and deferred members confirms the gradual maturation of the Fund and is broadly consistent with the profile of the Fund's cashflow as demonstrated on [page 24](#).

Another indicator of Fund maturity is the ratio of non-pensioners to other members, such as deferred members and pensioners. The measurement can be used, along with cashflow and actuarial analysis, to determine how long the Fund will be able to pay benefits from its regular contribution inflow and at what point it may be forced to sell assets in order to pay for on-going benefits.

# Scheme Administration

The chart below shows that the maturity level, the rate at which the Fund is maturing based on the percentage of members who are not active, has risen from 51.6% in 2014/15 to 57.1% in 2018/19. These statistics will form part of the actuarial considerations taken into account at the next valuation which is scheduled for 31 March 2020.



The 2019 CIPFA Guidance on “Preparing the Annual Report” recommends that the following statistics on employer bodies and new pensioners should be disclosed.

## Analysis of Scheduled and Admission Bodies

The number of employers with a continuing interest in the Fund at 31 March 2019 is as follows:

| Type of Employer        | Open      | Closed    | Total     |
|-------------------------|-----------|-----------|-----------|
| <b>Scheduled Bodies</b> | 9         | 1         | 10        |
| <b>Admitted Bodies</b>  | 12        | 16        | 28        |
| <b>Totals</b>           | <b>21</b> | <b>17</b> | <b>38</b> |

A full list of Fund employers can be found at Appendix 2 on [Page 92](#).

## Analysis of New Pensioners during 2018/19

| Retirement Type        | Total      |
|------------------------|------------|
| Normal Retirement      | 223        |
| Efficiency/Redundancy  | 53         |
| Other Early            | 244        |
| Ill Health Retirements | 42         |
| <b>Total</b>           | <b>562</b> |

“Other Early” includes flexible retirements and voluntary retirements from age 60 (age 55 from 1/6/2018)

## Administration Activity and Performance

The overriding objective of the administration team is to implement efficiently and effectively the terms of the Local Government Pension Scheme (Scotland) Regulations. This necessitates involvement in a range of activities in the following areas:

- new members
- transfers in
- member and employer contributions
- scheme membership and pensionable earnings
- added contribution and AVC requests
- estimates
- early leaver refunds, transfers out and deferred benefits
- retirement benefits
- pension payments and HM Revenue compliance
- death grants

# Scheme Administration

- survivor benefits
- information, guidance and communications materials
- benefit statement production
- pensions Increase
- fund and cessation valuations
- disputes resolution

Significant pieces of work involving the administration team, including new scheme regulations, Data Quality assessment and GMP reconciliation, are described in the Management Commentary on page 12 of the Annual Report.

In general terms, the introduction of the career average arrangement from April 2015 and its the interaction with the final salary rules has meant that scheme administration has become more complex for both the Fund and employers. The provisions governing aggregation of member rights, multiple post holdings, certificates of protection, and Lifetime and Annual Allowance continue to be the most resource intensive areas.

## Internal Disputes Resolution Procedure

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

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

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

Pensions Advisory Service - 0800 011 3797  
Pensions Ombudsman - 0800 917 4487

The following table lists the disputes settled under the IDRP process in 2018/19

|   | Subject Matter   | Stage 1 Outcome | Stage 2 Outcome  |
|---|--|-----------------|--|
| 1 | Member was denied payment of their deferred benefit on health grounds      | Dismissed       | Member won appeal at second stage. A distress payment was made for slow progress by the Fund and Employer in arranging first medical |
| 2 | Transfer out was refused as member was within 1 year of Normal Pension Age | Dismissed       | Member lost appeal at Stage 1 and did not appeal under Stage 2   |
| 3 | Transfer out was refused as member was over Normal Pension Age             | Dismissed       | Member lost appeal under Stage 2. A distress payment was made for late notification of deferred benefit                              |

# Scheme Administration

## Performance Information

### Performance Indicator – Volume and Completion Rate

|                      | Cases in Year | Cases Due at Year End | Cases Completed | Percentage Completed |
|----------------------|---------------|-----------------------|-----------------|----------------------|
| New Member Enrolment | 787           | 67                    | 720             | 91%                  |
| Estimate Requests    | 649           | 51                    | 598             | 92%                  |
| Retirements *        | 428           | 46                    | 382             | 89%                  |
| Other Transactions   | 13,406        | 1,508                 | 11,898          | 89%                  |

\*excludes retirements from deferred status

### Performance Indicator – Timescales

|                            | Cases Completed | KPI   | Cases Completed | % Completed |
|----------------------------|-----------------|---|-----------------|-------------|
| Joiners                    | 720             | 21 days from being advised                  | 448             | 62%         |
| Estimate Requests          | 649             | 1 month                                     | 326             | 50%         |
| Retirements Lump Sums Paid | 382             | 15 days from all information being received | 358             | 94%         |
| Other Transactions         | 11,898          | 1 month                                     | 8,590           | 72%         |

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

## Communications

Members and employers can obtain information about the scheme by contacting the Pensions Section in writing, by telephone or by e-mail. Contact details can found on [page 5](#).

The Fund has its own website - [www.falkirkpensionfund.org](http://www.falkirkpensionfund.org), split into areas for active, deferred and retired scheme members containing guides and information about various aspects of the LGPS and the Fund. Topical items of significance are uploaded to a News Section.

The screenshot shows the Falkirk Council Pension Fund website. At the top, there is a search bar and navigation links for 'Forms and Publications', 'Topping up', 'LGPS 2015', and 'Employers Site'. The main navigation menu includes 'Paying in', 'No longer paying in', 'Pensioners', 'Joining', 'Understanding pensions', 'About us', and 'News'. A large banner image features two horses at sunset with the text 'Welcome to the Falkirk Council Pension Fund'. Below the banner, there is a section titled 'Find out more about your pension options' with the subtext 'Choose an option that is right for you...'. There are four buttons: 'Active member' (Currently working and paying into the Pension Scheme), 'Deferred member' (No longer paying into the Pension Scheme but not yet retired), 'Pensioner' (Currently getting a pension from the Pension Scheme), and 'Auto-enrolled' (More about automatic enrolment and what it means for you). Each button has a 'Tell me more...' link.



As well as the website, wider communication is achieved through emails, publication of committee minutes, newsletters and a payslip messaging facility. The range of topics covered includes actuarial matters, benefits and regulatory changes, investment performance and investment manager/adviser presentations.

## Outlook

### Regulatory Changes

The administration team will be reviewing its processes in line with changes announced in the Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) 2019). These include:

- extending the option to access benefits from age 55 to all deferred members
- automatically collecting contributions where members have absences under 31 days
- protection for members who reduce their working hours/grade because of ill health but who ultimately have to retire because of their incapacity; and
- a partners pension if a couple have been together for at least two years (instead of having had to be free to marry for at least two years)

### Staffing Developments

The Council has agreed that a number of temporary posts in the administration team can be converted to a permanent status. In addition, consent has been given to recruit two additional posts recognising the various challenges and risks facing the Council's management of the Fund.

### Relationship with Lothian and Fife Pension Funds

The Falkirk Fund has entered into a collaborative working arrangement with Lothian and Fife Pension Funds. The objective of the three Fund collaboration is to deliver improved outcomes for Fund stakeholders. This will be achieved by creating investment efficiencies through scale investment and increased internal management and by using efficiency savings to build up the internal team and provide greater resilience.

Specifically, the Fund has entered into a shared service agreement with LPFI Limited, the regulated vehicle of Lothian Pension Fund. This provides the Fund with Investment arrangement and advisory services and is key to allowing the Fund to access investments in private markets.

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

Whilst the current arrangements relate solely to investment matters, the Fund intends to explore the possibilities of collaboration in other areas, such as scheme administration. It is recognised that progress on extending collaboration may need to take account of any developments arising from the review into the structure of the LGPS currently being conducted by the Scottish Scheme Advisory Board.

## Overview

Investment policy encompasses the Fund's investment management arrangements; its investment strategy, including principles and beliefs; and its approach to environmental, social and corporate governance issues.

This Section of the Annual Report looks at:

- Statement of Investment Principles
- Investment Management Arrangements
- Investment Strategy (including the creation of Policy Groups)
- Comparison of Actual and Strategic Asset Allocation
- Investment Mandates and Managers

The Fund's approach to environmental, social and corporate governance issues is set out in the Section starting on [page 43](#).

## Statement of Investment Principles

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

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

The SIP sets out the Fund's investment strategy, which describes how the Fund by investing in a broad range of asset classes and by balancing risk and return, intends to achieve the necessary return on its assets. Both Fund and Manager Performance are measured professionally by performance specialists against agreed benchmarks. The SIP also covers the Fund's approach to more general investment issues such as stock lending, use of derivatives and liquidity.

The extent to which the Fund complies with the CIPFA Principles for Investment Decision Making is also disclosed as is the Fund's Statement of Compliance with the UK Stewardship Code. A revised SIP was approved by the Pensions Committee in March, 2019 to incorporate the new investment strategy and to align the Falkirk SIP with those adopted by the Lothian and Fife Pension Funds.

## Investment Management Arrangements

The investment of Fund monies is undertaken by a range of third party investment managers. The safeguarding of the Fund assets is undertaken by the Fund Custodian, Northern Trust. For 2018/19, Northern Trust have also been the Fund's performance measurement provider.

Prior to 2017, managers were appointed by the Pensions Committee on the basis of external advice received from investment consultants. Since 2017, under revised governance arrangements, the Committee is responsible for setting high level investment strategy only and the Chief Finance Officer is responsible for implementing the strategy, including the allocation of capital to investment managers.

Both the Committee and Chief Finance Officer receive advice from the Joint Investment Strategy Panel (JISP) which consists of FCA qualified investment professionals from the Lothian Pension Fund as well as two independent external investment advisers.

The arrangement is a key part of the collaborative relationship between Falkirk, Fife and Lothian Pension Funds which also entails the Lothian Fund, through its investment vehicle LPFI Limited, providing investment support via a shared service agreement.

All investments with third party managers are underpinned by Investment Management Agreements or similar legal instruments to ensure that Fund monies are being invested in compliance with the terms of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010.

The in-house Pensions Section at Falkirk is responsible for co-ordinating the investment management arrangements including quarterly reconciliations between manager, custodian and performance specialists. The in-house team is also responsible for managing the Fund's alternatives programme, comprising

# Investment Policy

Infrastructure and Private Debt portfolios, and for liaising as necessary with the Lothian investment and legal teams.

Asset valuations are available to the Pensions Section via an on-line facility provided by the 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.

## Investment Strategy

The main objective of the Investment Strategy is to achieve a return on Fund assets that meets the Fund's funding objective as set out in the Funding Strategy Statement - currently this is a return target of gilts plus 2.8% p.a.

A revised investment strategy was approved by the Pensions Committee in December 2018 taking advice from Fund advisers and the Chief Finance Officer. The revised strategy is outlined set out in the Statement of Investment Principles.

The strategic review was conducted with the assistance of Hymans Robertson LP and in conjunction with Fife and Lothian Pension Funds. This has allowed the three Funds to have:

- a common set of investment beliefs, and
- a common naming convention for asset classes

This alignment between the Funds will facilitate future collaborative working.

A feature of the revised strategy is that assets are categorised into five Policy Groups, with each group having its own return target. Taking the groups together will enable the funding objective to be met. The Policy Groups are considered to be the key determinants of risk and return for the Fund and thus have been the focus of attention during the strategic review. Going forward, the Fund will be taking guidance from the Joint Investment Strategy Panel as to how the revised investment strategy can best be implemented in order to achieve the Fund's funding and investment objectives.

## Establishment of Policy Groups

The Fund's governance arrangements means that the Pensions Committee is responsible for setting the allocation to the five Policy Groups (Equities, Other Real Assets, Non-Gilt Debt, Gilts and Cash). The Chief Finance Officer responsible for setting the allocation to asset classes within the Policy Groups and ultimately to investment managers.

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

### Target Allocation to Policy Groups

| Policy Group             | Strategic Allocation | Long Term Expected Return |
|--------------------------|----------------------|---------------------------|
| <b>Equities</b>          | 60%                  | Gilts + 3.5%              |
| <b>Other Real Assets</b> | 20%                  | Gilts + 2.5%              |
| <b>Non Gilt Debt</b>     | 15%                  | Gilts + 1.0%              |
| <b>Gilts</b>             | 5%                   | Gilts + 0.0%              |
| <b>Cash</b>              | 0%                   | 0.0%                      |
| <b>Totals</b>            | <b>100%</b>          | <b>Gilts + 2.8%</b>       |

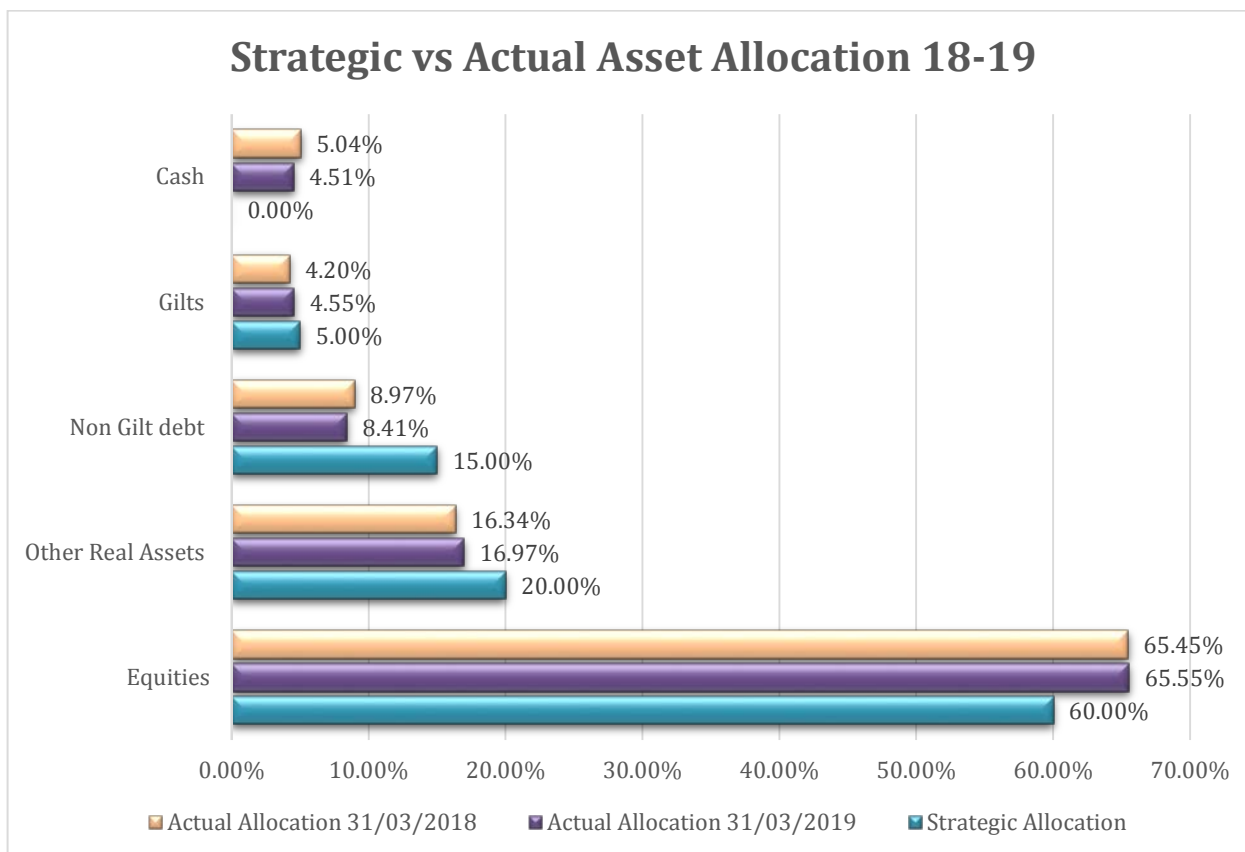
To avoid unnecessary and costly re-balancing, the Committee have agreed that the level of assets held in each policy group may sit with a prescribed range, as follows:

### Tolerances around Strategic Allocation

| Policy Group             | Minimum Allocation | Strategic Allocation | Maximum Allocation |
|--------------------------|--------------------|----------------------|--------------------|
| <b>Equities</b>          | 45%                | 60%                  | 65%                |
| <b>Other Real Assets</b> | 10%                | 20%                  | 25%                |
| <b>Non Gilt Debt</b>     | 0%                 | 15%                  | 25%                |
| <b>Gilts</b>             | 0%                 | 5%                   | 20%                |
| <b>Cash</b>              | 0%                 | 0%                   | 10%                |

## Comparison of Actual and Strategic Asset Allocation

As can be seen from the table below, the revised strategy is very similar to the previous strategy in that the Fund is continuing to pursue a course weighted strongly towards equities and other return seeking assets. The review has nonetheless provided reassurance that the equities oriented approach remains the appropriate strategy for the Fund. The Fund will continue to look for opportunities to de-risk should bond yields and funding levels improve significantly. Given the return objective for equities of gilts plus 3.5%, the focus will be increasingly on low volatility equities and equities with capital preservation characteristics.



The Fund's actual Policy Group holdings against the strategic weightings are reviewed by the Joint Investment Strategy Panel on a quarterly basis and then reported to the Pensions Committee and Pension Board.

The actual allocation at 31/03/2019 is at variance with the strategic allocation but is within the limits of the approved investment strategy.

In particular, the Fund is overweight to Equities and underweight to Debt and Other Real Assets. Both the Joint Investment Strategy Panel and the Pensions Committee are content with this position recognising that steps are being taken to move the actual allocation towards the strategic allocation. This is a gradual process as the switch from equities to other asset types (e.g. infrastructure and property) can only take place as suitable assets become available. A significant level of Cash is being held pending new investment opportunities in these areas and also as a defensive measure in the light of the unattractive returns from gilts and other bonds. The cash holdings are split between the Custodian Bank Northern Trust and various financial institutions. Further details can be found in the Note 18, [page 74](#)."

# Investment Policy

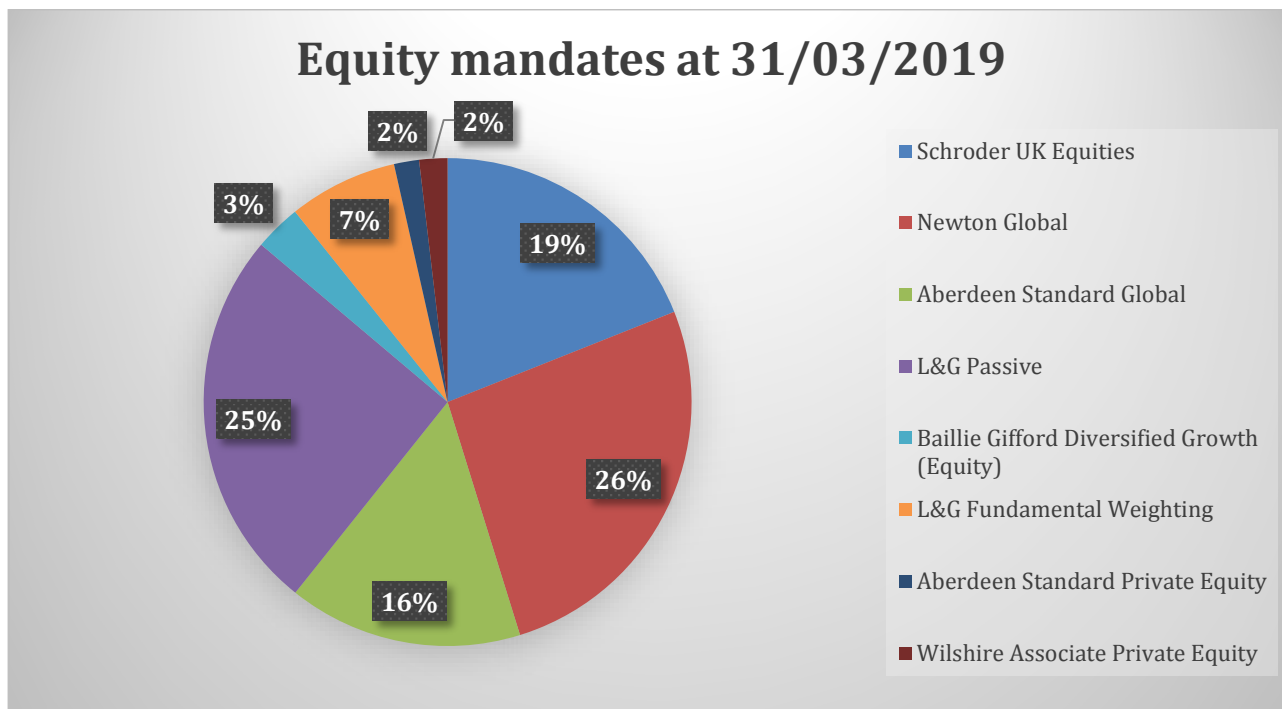
## Investment Mandates and Managers

During 2018-19, the Fund invested its assets across the Policy Groups using the following mandates and managers.

The pie charts below show the composition of each Policy Group.

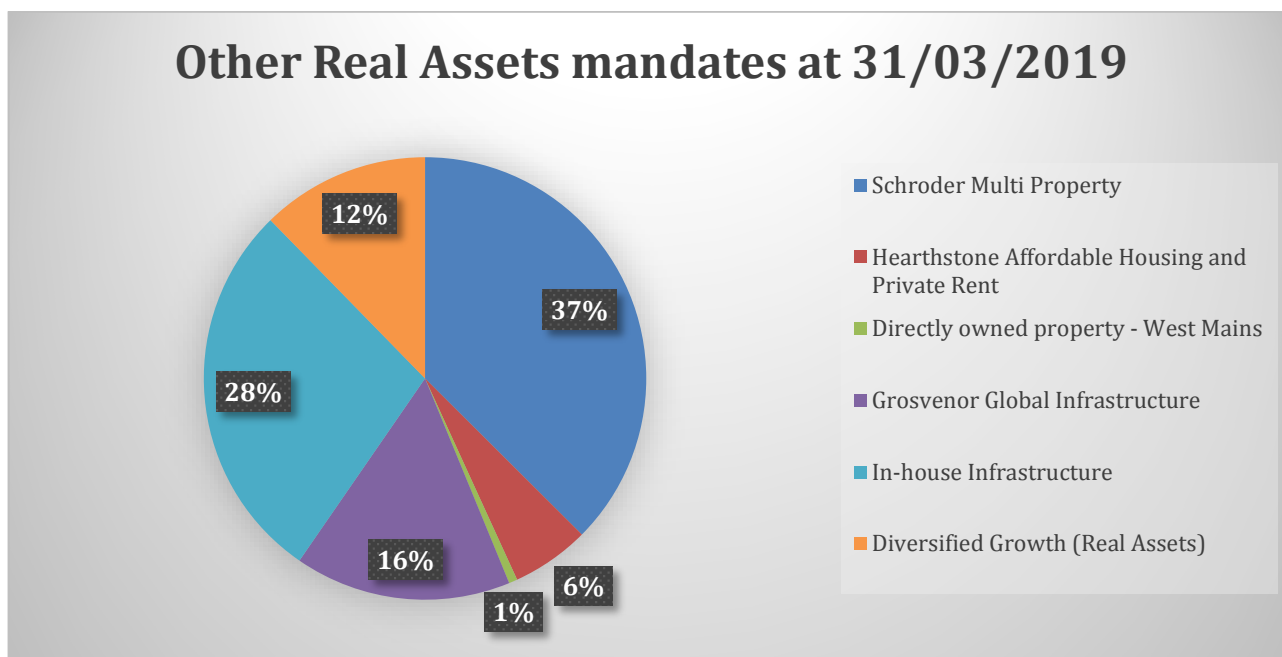
### Equities

At 31 March 2019, the Fund invested 66% of its assets in Equities, allocated to the following portfolios:



### Other Real Assets

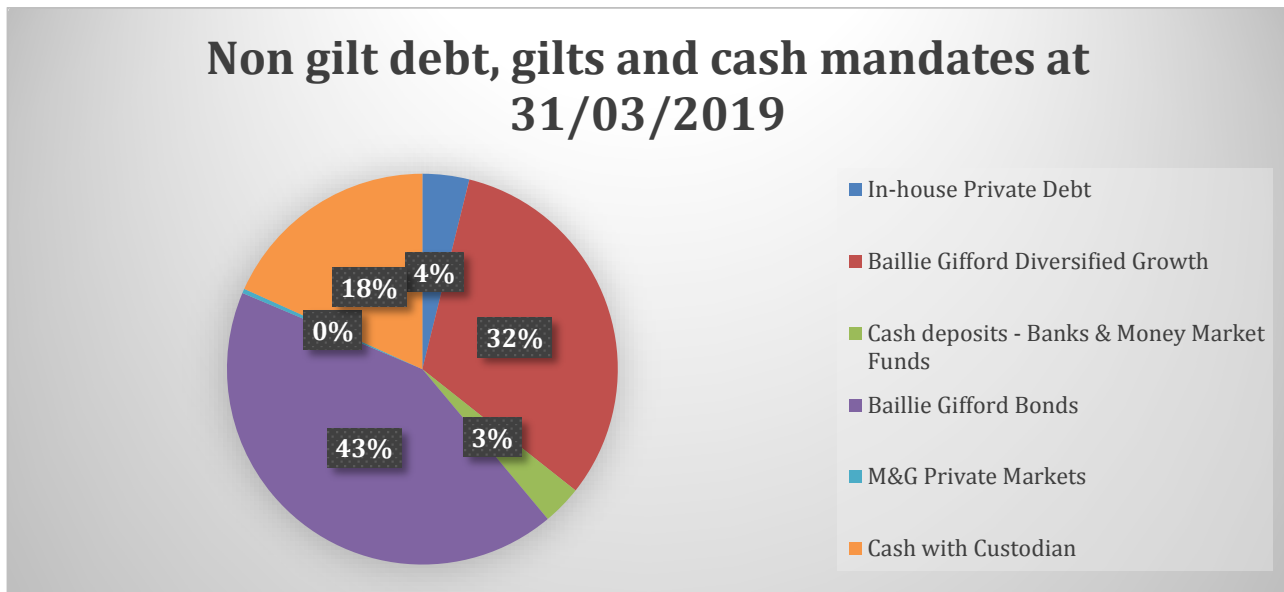
Other Real Assets formed 17% of the fund and were split between following fund managers:



# Investment Policy

## Non Gilt Debt, Gilts and Cash

The remaining fund assets were allocated between non-gilt debt (8%), gilts (4.5%) and cash (4.5%), managed as follows:



# Investment Performance

## Investment Performance

This section of the Annual Report deals with the Investment Performance of the Fund during 2018/19 and over longer time periods. The initial part deals with the returns at a whole Fund level and the latter part looks at how returns have been delivered by individual elements of the portfolio.

## Fund Performance

2018/19 was a year when positive sentiment in global financial markets gave way to a wave of pessimism based on a headwind of macroeconomic risks before rebounding with renewed vigour by the year end.

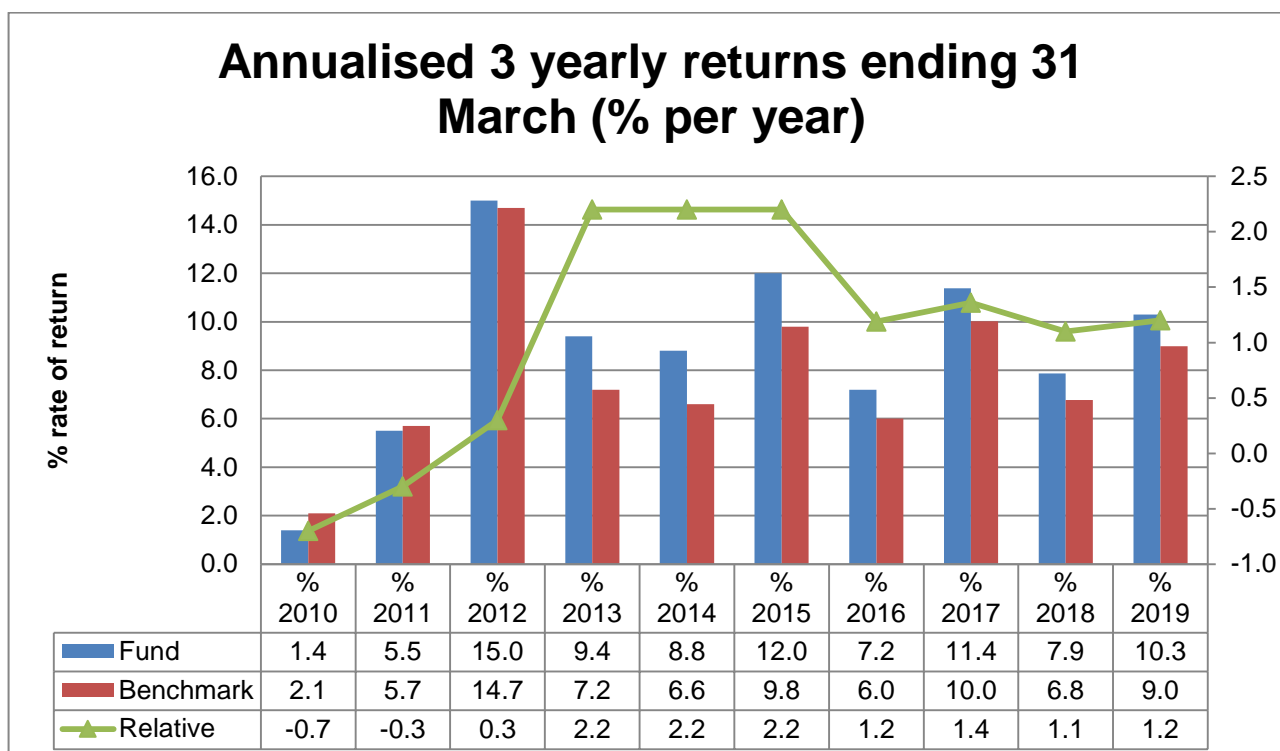
Against this backcloth the Fund achieved a return of 8.5% beating its benchmark by 1.7%. The return was achieved against an environment of increased volatility in November and December 2018 and UK interest rates remaining at historically low levels, albeit the Bank of England base rate was increased from 0.50% to 0.75% in August, 2018.

The Fund's longer term returns over 3 years, 5 years and since inception (2001) show that the Fund has beaten its benchmark over all time periods and that returns have more than kept pace with other metrics such as inflation. The tables below give the exact details:

|                  | 1 year<br>(2018/19)<br>% | 3 years<br>% per<br>annum | 5 years<br>% per<br>Annum | Inception<br>% per<br>Annum* |
|------------------|--------------------------|---------------------------|---------------------------|------------------------------|
| Fund Return      | 8.5                      | 10.3                      | 9.1                       | 7.7                          |
| Benchmark Return | 6.8                      | 9.0                       | 7.8                       | 7.1                          |
| Excess Return    | 1.7                      | 1.3                       | 1.3                       | 0.6                          |

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

Fund performance is further illustrated by the following chart which sets out the 3 year rolling average returns over the past 10 years. The chart shows the resurgence of returns in the aftermath of the global financial crisis of 2008/09 being followed by consistently strong asset returns year on year, the latter fuelled by the accommodative monetary policies of global Central Banks and the stable trading conditions.



# Investment Performance

To give an indication of how the Fund has performed in comparison with other Scottish Funds, the undernoted table shows the one, three and five year returns for the Fund against the average for Scottish LGPS Funds over the same time periods. Both sets of returns are as at 31 March 2018, since the average results at 31 March 2019 will not be available until later this year:

|                       | 1 year<br>(2017/18)<br>% | 3 years<br>% per<br>annum | 5 years<br>% per<br>Annum |
|-----------------------|--------------------------|---------------------------|---------------------------|
| Fund Return           | 3.1                      | 7.9                       | 8.8                       |
| LGPS Scottish Average | 5.4                      | 8.9                       | 9.6                       |

n.b.The LGPS Scottish Average is based on the CIPFA Scottish Directors of Finance Performance Indicators 2017-18

## Investment Manager Benchmarking

The Fund's overall investment return for a given year depends on the returns achieved by its investment managers. Each manager has a performance objective which is usually expressed as an out-performance target above a specific benchmark (e.g. Retail Price Index plus 2%). Performance against benchmark is monitored on a quarterly basis by the Joint Investment Strategy Panel and by the Pensions Committee.

The main benchmarks against which managers are assessed are as follows:

| Manager  | Benchmark / Performance Objective |
|--|-----------------------------------|
| <b>Aberdeen Standard</b>                         | MSCI All Countries World Index    |
| <b>Baillie Gifford Bonds</b>                     | UK Fixed Interest benchmark       |
| <b>Baillie Gifford Diversified Growth</b>        | Bank of England Base Rate         |
| <b>Legal &amp; General Passive</b>               | Global Equities Benchmark         |
| <b>Legal &amp; General Fundamental Weighting</b> | FTSE RAFI All World 3000          |
| <b>Newton Global Equity</b>                      | MSCI All Countries World Index    |
| <b>Schroder UK Equities</b>                      | FTSE All Share Index              |
| <b>Schroder Property</b>                         | AREF/IPD UK Quarterly Property    |

## Investment Manager Performance

The Fund's strategy aims to deliver stable returns over the long term. One year is a very short time period in which to judge manager performance. When reviewing mandates, the Joint Investment Strategy Panel will tend to look at performance over a complete economic cycle. To give this longer term perspective, the table below shows the annualised return for key Fund mandates over a one, three and five year period to 31 March 2019:

|                               | Absolute Return |        |        | Benchmark |        |        | Relative to Benchmark |        |        |
|-------------------------------|-----------------|--------|--------|-----------|--------|--------|-----------------------|--------|--------|
|                               | 1 Year          | 3 Year | 5 Year | 1 Year    | 3 Year | 5 Year | 1 Year                | 3 Year | 5 Year |
| Mandate                       | %pa             | %pa    | %pa    | %pa       | %pa    | %pa    | %pa                   | %pa    | %pa    |
| <b>Equities Active</b>        |                 |        |        |           |        |        |                       |        |        |
| Aberdeen Standard             | 8.1             | 12.7   | 8.5    | 11.0      | 14.9   | 12.4   | -2.9                  | -2.2   | -3.9   |
| Newton                        | 15.6            | 12.2   | 13.2   | 10.5      | 14.4   | 12.0   | 5.1                   | -2.2   | 1.2    |
| Schroder                      | 5.9             | 10.6   | 6.8    | 6.4       | 9.5    | 6.1    | -0.5                  | 1.1    | 0.7    |
| <b>Equities Passive</b>       |                 |        |        |           |        |        |                       |        |        |
| LGIM Passive                  | 8.8             | 13.1   | 10.4   | 8.8       | 13.0   | 10.3   | 0.0                   | 0.1    | 0.1    |
| LGIM Fundamental Weighting    | 6.6             | n/a    | n/a    | 6.8       | n/a    | n/a    | -0.2                  | n/a    | n/a    |
| <b>Fixed Interest</b>         |                 |        |        |           |        |        |                       |        |        |
| Baillie Gifford               | 4.0             | 5.6    | 6.4    | 4.2       | 5.3    | 6.4    | -0.2                  | 0.3    | 0.0    |
| <b>Property</b>               |                 |        |        |           |        |        |                       |        |        |
| Schroder                      | 4.6             | 6.0    | 8.9    | 4.9       | 6.2    | 9.1    | -0.3                  | -0.2   | -0.2   |
| <b>Diversified Growth</b>     |                 |        |        |           |        |        |                       |        |        |
| Baillie Gifford               | 0.8             | 5.6    | 4.9    | 0.7       | 0.5    | 0.5    | 0.1                   | 5.1    | 4.4    |
| <b>Affordable Housing</b>     |                 |        |        |           |        |        |                       |        |        |
| Hearthstone                   | 0.5             | -0.1   | n/a    | 4.4       | 5.0    | n/a    | -3.9                  | -6.2   | n/a*   |
| <b>Alternatives</b>           |                 |        |        |           |        |        |                       |        |        |
| Private Equity/Infrastructure | 15.1            | 11.2   | 12.3   | 3.1       | 0.8    | 0.6    | 12.0                  | 10.4   | 11.7   |

\*Investment not held



## Comment on Manager Performance

The overall Fund return of 8.5% in 2018/19 was underpinned by strong absolute returns from the active and passive global equity mandates (Aberdeen Standard, Legal and General, and Newton) and from the alternatives portfolio which contains allocations to infrastructure and private equity. Positive absolute returns were also delivered by the Schroders UK equity and Property mandates and by the Baillie Gifford Fixed Interest portfolio. However, returns from the Baillie Gifford Diversified Growth and from the Hearthstone mandates were muted.

Equity managers benefitted from the general re-rating of the asset class which took hold in the first quarter of 2019. This was triggered by the US Federal Reserve's decision to rein back its policy of interest rate normalisation. In addition, China's approach to stimulate its own economy in the face of headwinds was also taken as a positive sign by markets.

By contrast, the Diversified Growth mandate suffered from the positions it had taken in commodities, active currency and emerging market bonds.

Over the longer time periods of three and five years, equities and alternatives have been the major contributors of return. All equity managers have contributed positively to Fund returns, but to varying degrees, indicating that the individual manager strategies are providing diversification across the asset class. Strong returns have also been achieved by Alternatives, principally through the Global Infrastructure mandate with Grosvenor Capital and the more direct investments made with collaborative partners. These focus on operational "brownfield" assets which deliver long term inflation linked returns; are managed by experienced infrastructure managers; and are at the lower end of the risk spectrum. Many of the assets are supportive of the UK economy and a number are in the renewables space.

The Fund holds Fixed Interest, Property and Diversified Growth assets for defensive purposes and to add diversification within the portfolio, so that if equity returns falter these asset classes will continue to deliver returns. Property returns in particular have held up well over the longer time periods with the manager conscious of the challenges coming through from the retail sector and from Brexit.

The Hearthstone mandate which invests in Affordable Housing and has been running since 2014 reached the end of its investment period during 2018/19. Whilst rental flows have increased in parallel with the acquisition of new properties, transaction costs and the relatively slow deal flow have all weighed heavily on the performance numbers. The Fund has a lifespan of 10 years and returns will only be fully quantifiable when the investment is liquidated at that time.

## Investment Monitoring

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

- analysing the manager reports
- conducting managers meetings or conference calls
- reporting to the Joint Investment Strategy Panel

Manager reports are summarised 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.

Finally each quarter the Pensions Committee receives a report on both Fund and Manager performance and on any Manager issues.

# Investment Performance

## Investment Holdings

The Fund's 10 largest equity holdings at 31/03/2019 are as listed below:

| Name of Stock                 | Market Value as at 31/03/2019 | Sector                 |
|-------------------------------|-------------------------------|------------------------|
| <b>BP</b>                     | £18,658,227                   | Energy                 |
| <b>MICROSOFT</b>              | £18,565,287                   | Information Technology |
| <b>ALPHABET</b>               | £18,541,047                   | Information Technology |
| <b>PEARSON</b>                | £16,541,867                   | Consumer Discretionary |
| <b>TESCO</b>                  | £15,559,260                   | Consumer Staples       |
| <b>GLAXOSMITHKLINE</b>        | £15,550,061                   | Health Care            |
| <b>ANGLO AMERICAN</b>         | £15,246,332                   | Materials              |
| <b>HSBC</b>                   | £15,230,202                   | Financials             |
| <b>ROYAL BANK OF SCOTLAND</b> | £15,064,950                   | Financials             |
| <b>ROYAL DUTCH SHELL</b>      | £14,545,128                   | Energy                 |

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 0.75% of fund value, and therefore comfortably within the statutory ceiling.

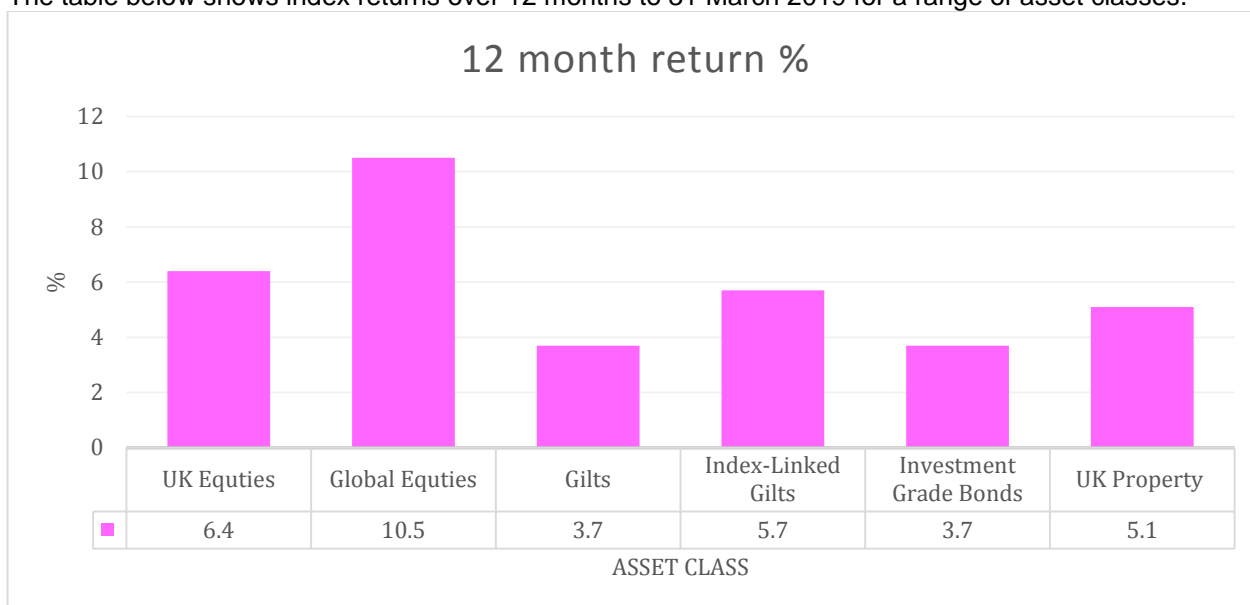
A full list of Fund holdings can be found on the [Fund website](#).

## Overview

For the 12 months to 31 March 2019, UK equities (FTSE All Share) returned +6.4%, and global equities (MSCI ACWI, in GBP) returned +10.5%. Global equity returns for sterling-based investors were boosted by the weakness of the pound over the year (global equities returned +5.6% in local currency terms), as investors grappled with the wide range of potential Brexit outcomes. Equities fell sharply in Q4 2018, with markets falling as much as 14% from end September 2018 to their lows in late December, before rallying strongly through the first quarter of 2019.

UK and US government bond yields rose modestly through to September 2018, with the US 10-year bond yield breaching the 3% level for the first time since 2011. However, yields then fell through Q4 2018 as equity markets sold off. Towards the end of December, the US Federal Reserve signalled that the prospect of future rate rises was much less certain than many participants had expected. Bond yields then moved lower through Q1 2019, with US and UK 10 year bond yields ending the year to 31 March 2019 circa 30 basis points (0.3%) lower than they had been 12 months prior. In Europe, the 10 year Bund yield ended the year circa 50 basis points (0.5%) lower as investors sought the safety of German government bonds and economic data showed the Eurozone slowing. In contrast, Italian bond yields were higher over the year amid heightened concerns over government finances and the domestic political situation.

The table below shows index returns over 12 months to 31 March 2019 for a range of asset classes.



Index: Bloomberg, MSCI UK Property

The OECD's latest economic outlook (March 2019) includes further downgrades to 2019 GDP projections for the world's major economies; this follows a previous set of downgrades in its November 2018 update. Dispersion between regions is highlighted, particularly between the US and Eurozone areas, alongside the ongoing risk from a potential China growth shock. For the UK, the OECD estimate the economic loss since the 2016 Brexit referendum at between 0.7% and 1.7% of GDP, with continued uncertainty expected to impact negatively until the situation is resolved. Given this backdrop, it is not a surprise that the OECD also expect that "interest rates are set to stay lower for longer".

The prospect of looser monetary policy has supported risk assets in the short term and although the outlook for global growth is softer than it was, it remains positive overall. However, economic forecasts have been tilting further in a downward direction. That said, markets are inherently uncertain and a focus on long-term investment strategy remains a prudent approach for long-term investors.

## Overview

The Fund considers itself to be a responsible investor and has set out its approach to Environmental, Social and Governance (ESG) matters in its Statement of Investment Principles (SIP). The approach is informed by the various investment beliefs of the Pensions Committee, including:

- a belief that their decisions, and those of officers, must give precedence to the fiduciary duty owed to members and employers
- a belief that responsible investment should reduce risk and may improve returns
- a belief it should exercise its ownership rights in a responsible way, constructively engaging with companies to reduce risk, rather than divesting.

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. A number of managers now produce separate quarterly reports which focus solely on sustainability and engagement.

In recognising its obligations as a responsible investor, the Fund is mindful of the fact that its legal purpose is to invest the monies given to it by its stakeholders in order to meet future pension payments. Failure to deliver the necessary returns will result in increased contributions from employers and reduce the money that can be spent on public services. Whilst the Fund may take non-financial factors into account when setting its investment policy, this cannot be done if it results in a material reduction of the Fund's financial returns.

## Engagement versus Divestment

Rather than making its own decision as to the specific companies in which to invest in or not invest in, the Fund relies on the judgement of its appointed specialist investment managers. They are investment professionals who are paid to assess all prospective risks and returns before making their investment decision.

Stock holdings in certain sectors can give rise to concerns being voiced by lobbying groups. This could be in relation to fossil fuel, tobacco, defence companies or holdings in politically sensitive countries.

Whilst the Fund could choose not to invest in these sectors – which could damage returns and the risk profile of the Fund - it prefers to leave those investment decisions to its investment managers. Where a stock holding is particularly controversial, the Fund's officers will engage with the investment manager to challenge the rationale behind the stock continuing to be held in the portfolio. In general, engagement is seen as a more effective tool than blanket divestment since this would result in the Fund ceasing to have any influence over these types of company and the shares potentially falling into the hands of less responsible owners.

One example of recent engagement was a motion sponsored by one of the Fund's managers – Legal and General (LGIM) – and voted on at the BP AGM 2019. This required BP to adopt a business model which is consistent with the Paris Agreement on Climate Change.

## Climate Change

Climate change is a phenomenon that we all have a vested interest in.

The risks posed by climate change and global warming generally have been identified by the Fund as a particular risk to asset valuations. This is consistent with the findings of the Task Force on Climate Related Financial Disclosures – a working group established by G20 Ministers and Central Bankers – which in a 2017 report stated that:

*“The reduction in greenhouse gas emissions implies movement away from fossil fuel energy and related physical assets. This coupled with rapidly declining costs and increased deployment of clean and energy-efficient technologies could have significant, near-term financial implications for organizations dependent on extracting, producing, and using coal, oil, and natural gas. While such organizations may face significant climate-related risks, they are not alone. In fact, climate-related risks and the expected transition to a lower-carbon economy affect most economic sectors and industries.”*

The Task Force noted that in the light of the risks from climate change:

*“Both investors and the organizations in which they invest, therefore, should consider their longer-term strategies and most efficient allocation of capital. Compounding the effect on longer-term returns is the risk that present valuations do not adequately factor in climate-related risks because of insufficient information. As such, long-term investors need adequate information on how organizations are preparing for a lower-carbon economy.”*

## Responsible Investment

The Task Force has made four specific recommendations intended to improve the financial disclosures around climate-related risks and opportunities. These focus on governance, strategy, risk management, and metrics and targets. Together, they form a basis against which investors can hold companies to account in relation to their business future proofing and assess whether sufficient scenario analysis is being undertaken.

### Core Elements of Recommended Climate-Related Financial Disclosures



#### **Governance**

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

#### **Strategy**

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

#### **Risk Management**

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

#### **Metrics and Targets**

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

The Fund manages its climate change risk firstly by engaging with its investment managers to ensure they are challenging investee companies in terms of the Task Force recommendations and secondly by being part of the Local Authority Pension Funds Forum where the collective voting strength of over 75 funds can be used to influence corporate policy.

The Fund has also recently agreed to support the Climate Action 100+ initiative. This is an investor initiative to encourage the world's largest corporate greenhouse gas emitters to take action on climate change. More than 320 global investors are supporting engagement with companies to improve governance, curb emissions and strengthen climate-related disclosures. The companies targeted are 100 'systemically important emitters', who account for two-thirds of annual global industrial emissions, and more than 60 others who have the capacity to drive the clean energy transition.

On the wider environmental front, the Fund is participating in a legal action ("a Class Action") against BHP Billiton in relation to the collapse of the Samarco dam in Brazil in 2015 which killed 19 people and caused environmental turmoil. It is contended that from 2013, BHP knew that there was a material risk the dam would collapse. As a result, it is alleged that they breached disclosure obligations and misled the market. The case is being heard in Australia and is likely to play out over the coming months.

### Impact Investment

The Fund does not set out specifically to invest in assets with a wider social or environmental benefit as this could be at variance with its fiduciary responsibilities. Nonetheless, the Fund does invest in a number 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 affordable housing, student accommodation, schools and hospitals.

### UK Stewardship Code

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

Whilst the Code applies to firms who manage assets on behalf of institutional shareholders, it also strongly encourages institutional investors to disclose their own level of compliance with the code's principles.

The Code is the responsibility of the Financial Reporting Council (FRC) - the UK's independent regulator responsible for promoting transparency and integrity in business.

The Code comprises seven principles which seek to improve the quality of engagement between institutional investors and investee companies. Under the seven principles, industry participants are required to:

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

Details of how the Fund complies with the UK Stewardship Code are contained in Appendix C of the Statement of Investment Principles.

## Corporate Governance

As indicated in the SIP, the Fund strives to promote corporate responsibility and good practice amongst the companies in which it invests. To this end, the Fund has arrangements in place to monitor companies so as to understand if standards of good corporate behaviour are being met. This includes:

- discussing stock holdings with the investment managers
- voting
- participating selectively in class actions
- being members of the Local Authority Pension Fund Forum (LAPFF)
- appointing the Pensions and Investment Research Consultants (PIRC) to undertake proxy voting and provide advice and research information on environmental, social and governance matters

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

## Local Authority Pension Funds Forum (LAPFF)

LAPFF is an umbrella body of around 75 UK local government pension funds with combined assets of over £250 billion - which exists to promote good standards of corporate governance.

The Fund considers membership of LAPFF is an effective way to exert influence on ESG matters. Recent LAPFF campaigns to change corporate behaviour have included executive pay, gender equality in boardrooms and fossil fuel emissions.

During 2018/19, LAPFF engaged with major companies on a range of issues, including Board diversity, plastics pollution, social media content, carbon and environmental risk, executive pay, and other workforce issues. Engagement is invariably at a personal level between LAPFF office bearers and company chairs or senior executives. Business meetings are held on a quarterly basis allowing LAPFF members to be fully briefed on developments.



In relation to the risks posed by climate change, LAPFF have been instrumental in garnering support for a motion to be put to the 2019 BP AGM requiring greater disclosure from the company around its strategic plans to address the transition to a lower carbon world. In addition, LAPFF is an active participant in the "50:50" Climate Change Project which is an initiative to encourage the 50 largest global public companies to create effective long term climate change strategies.

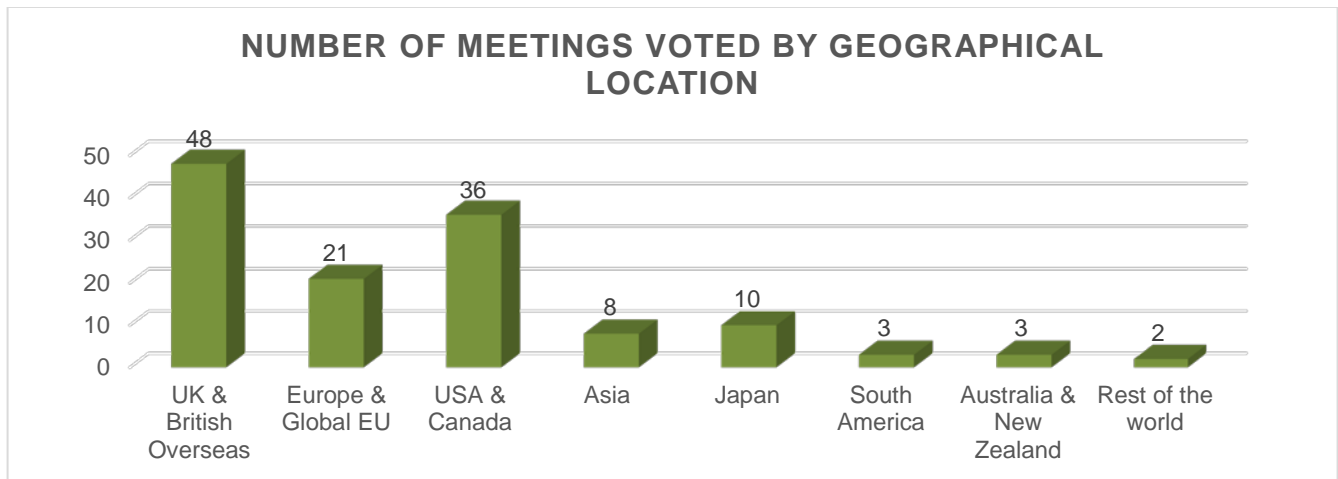
During the year, the Committee has been briefed regularly on Fund voting and on corporate governance engagements targeted by the Local Authority Pension Funds Forum. One highlight was the Fund's co-filing of a motion at the BP AGM on the company's plans for transitioning the business to a lower carbon world. More information about the work of the LAPFF can be found at [www.lapfforum.org](http://www.lapfforum.org).

## Pensions and Investment Research Consultants Ltd (PIRC)

To support its ESG commitments, the Fund has engaged PIRC to provide advice and research information on matters pertaining to corporate governance. PIRC also act as voting agents for the Fund.

## 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 2018/19, PIRC voted at 130 company meetings on 1,915 resolutions with 1,241 votes being cast in favour of resolutions, 492 opposed, 148 being mainly abstentions or withheld votes. The breakdown of votes by geography and category is set out overleaf.



## Analysis of resolutions



## Voting Themes

The votes cover areas such as election of directors and remuneration policy, annual reports, dividends, share issue/re-purchase. Areas where “oppose” votes were regularly cast included remuneration policies, executive pay, share buybacks, corporate governance matters and auditor independence.

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

## Overview

Risk is an inherent feature of pension fund management. This may be risk in entrusting fund monies to an investment manager or any systems failures or regulatory breaches.

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

- the risk philosophy
- risk management implementation process
- risk management responsibilities
- key internal controls

The policy seeks to ensure that the Fund:

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

## Risk Identification, Management and Review

The Fund has adopted the following process for identifying, managing and reviewing risk



Risks are identified through a variety of means, including:

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



# Risk Management

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

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

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

In relation to any heightened areas of risk or newly identified risks, the Pensions Committee and Pension Board are provided with updates on a quarterly basis. Additionally, the register is reviewed by senior officers twice yearly at meetings attended by the Board Chairs. Once reviewed, the register is taken to the Pensions Committee for formal approval.

As well as maintaining a risk register, the risk management process is supported by the following strategic documents

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

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

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

## Key Risks and Mitigations

Areas of greatest risk and the mitigations in place for the Fund, as recorded in the risk register at 31 March 2019, were as follows:

| Identified Risk (classified as Very High)   | Responsible Officers                      | Mitigating Actions  | Risk Rating Post Mitigation |
|---|---|---|-----------------------------|
| <b>Funding position affected by falling asset values or fall in bonds yields impacting on liabilities</b> | Chief Finance Officer<br>Pensions Manager | <ul style="list-style-type: none"> <li>• Diverse range of assets held</li> <li>• Strategy overseen by Joint Investment Strategy Panel (JISP)</li> <li>• Allocations to Infrastructure, Private Debt and Diversified Growth</li> <li>• Long term time horizon</li> <li>• Periodic reviews of strategy</li> </ul>   | Medium                      |
| <b>Managers under-perform or performance monitoring is ineffective</b>                                    | Chief Finance Officer<br>Pensions Manager | <ul style="list-style-type: none"> <li>• Reviews by Lothian's investment team which includes FCA accredited professionals</li> <li>• Performance assessed by JISP</li> <li>• Quarterly calls held with managers</li> <li>• Manager reports/updates provided to Board/Committee</li> <li>• Robust manager selection</li> <li>• Option to terminate managers contract for poor performance</li> </ul> | Medium                      |
| <b>Climate change</b>   | Pensions Manager                          | <ul style="list-style-type: none"> <li>• Engagement with investee companies by Fund managers</li> <li>• Lobbying by LAPFF / PIRC</li> </ul>   | High                        |

## Risk Management

|  |   |  |           |
|--|---|--|-----------|
| <b>Lack of knowledge, skills and leadership amongst Committee, Board and Officers</b>                                      | Chief Finance Officer<br>Pensions Manager | <ul style="list-style-type: none"> <li>• Training Policy in place</li> <li>• Completion of Regulator toolkit mandatory</li> <li>• Attendance at conferences</li> <li>• Access to wide variety of advice</li> </ul>   | Medium    |
| <b>Succession Planning may not be adequate in view of the age profile and key person risks across the Pensions Section</b> | Chief Finance Officer<br>Pensions Manager | <ul style="list-style-type: none"> <li>• Key man risk reduced through rotation of duties</li> <li>• Staff have access to peer group and online network</li> <li>• Collaboration with Lothian and Fife allows for greater resilience</li> <li>• Additional posts recently created within Pensions Structure</li> </ul>  | Very High |
| <b>Failure to issue all Benefit Statements by due date</b>   | Pensions Manager and Pensions Officers    | <ul style="list-style-type: none"> <li>• Employer training sessions held</li> <li>• Employer reminders sent before and after year end</li> <li>• Move to monthly data collection ongoing</li> </ul>  | High      |
| <b>Failure of IT systems including Altair (key admin/payroll system) including Altair move to Cloud hosting</b>            | Pensions Manager and Pensions Officers    | <ul style="list-style-type: none"> <li>• Altair is a hosted system and is widely used and tested by industry users</li> <li>• Altair contingency arrangements tested annually</li> <li>• Data backed-up daily</li> <li>• Council has IT Disaster Recovery Arrangements</li> <li>• Senior pensions staff equipped with laptops</li> </ul>                               | Medium    |
| <b>Cyber security attack</b>   | Chief Finance Officer<br>Pensions Manager | <ul style="list-style-type: none"> <li>• Hosted platform is consistent with (or stronger than) the Government's Cyber Essential Plus certification</li> <li>• Move to Cloud hosting to further enhance security</li> <li>• Falkirk Council has attained Cyber Essentials certification as well as having ongoing Public Service Network (PSN) Certification</li> </ul> | Medium    |
| <b>Inaccurate member data on Altair or incomplete member data due to employer omissions</b>                                | Pensions Manager                          | <ul style="list-style-type: none"> <li>• Data cleansing tools available</li> <li>• Data quality audit undertaken</li> <li>• Employer training sessions and forms revised to improve clarity</li> <li>• System validation, checks on returns and submissions</li> </ul>   | High      |
| <b>Staff error or backlogs in Service delivery</b>   | Pensions Manager and Pensions Officers    | <ul style="list-style-type: none"> <li>• Stable and experienced workforce</li> <li>• Staff training and development ongoing</li> <li>• Processes to involve checking mechanism</li> <li>• Outstanding cases monitored</li> <li>• Robust staff selection and new posts recently created</li> </ul>  | High      |

### Data Security and Cyber Risk

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

At the Pensions Section level, the following arrangements are in place to safeguard 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 data has to be transferred off site we use either secure FTP, VPN, or Sharefile - a secure file exchange application
- Data classed as sensitive personal data transferred on site is password protected
- Paper records are securely destroyed on site by the in house Pensions team

## Risk Management

- Encrypted laptops are provided to staff who work away from the office, as part of their regular role or as part of the business continuity plan
- The Pensions Administration System complies with the standards contained in ISO/IEC 27001 information security management
- Data Processing Agreements in place with third party processors (e.g. the Fund Actuary and the vendor of the administration software)

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

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

### Investment Risk

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

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

To gain assurance that the Fund's investment managers are exercising responsible stewardship of the assets under management, the Fund and its advisers have regular calls and meetings with the managers; discuss manager performance with Fund advisers and seek from managers' their audited compliance and control reports.

Details of the control reports (or equivalent) obtained in 2018/19 are as follows:

| Fund manager/administrator           | Type of assurance   | Control Framework    | Compliance with controls | Service Auditors   |
|--------------------------------------|---------------------|----------------------|--------------------------|--------------------|
| Aberdeen Standard Investments        | AAF 01/06/ISAE3402  | Reasonable assurance | Reasonable assurance     | KPMG LLP           |
| Alcentra/Sanne                       | ISAE 3402           | Reasonable assurance | Reasonable assurance     | KPMG LLP           |
| Ancala/Augentius Group Ltd           | SOC 1               | Reasonable assurance | Reasonable assurance     | BDO LLP            |
| Baillie Gifford                      | ISAE 3402/AAF 01/06 | Reasonable assurance | Reasonable assurance     | PWC LLP            |
| Barings, LLC                         | SOC 1               | Reasonable assurance | Reasonable assurance     | Grant Thornton LLP |
| Blackrock/M&G/State Street           | SOC 1               | Reasonable assurance | Reasonable assurance     | EY LLP             |
| Brookfield/SS&C GlobeOp              | SOC 1               | Reasonable assurance | Reasonable assurance     | PWC LLP            |
| Dalmore Capital                      | ISAE 3402           | 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     | KPMG 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     | EY LLP             |
| UBS (Greensands)                     | ISAE 3402           | Reasonable assurance | Reasonable assurance     | EY LLP             |

## 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 26 September 2019.



**Councillor Adanna McCue**  
**Convener of the Pensions Committee**

# Statement of Responsibilities

## 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 2019 and the transactions of the Pension Fund for year ended 31 March 2019.



**Bryan Smail, CPFA MBA**  
**Chief Finance Officer (Falkirk Council)**  
**27 June 2019**

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

### Report on the audit of the financial statements

#### Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Falkirk Council Pension Fund (the fund) for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, 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 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the fund during the year ended 31 March 2019 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 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is 3 years. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the fund. 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.

#### Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

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

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

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

# 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 (continued)

The Falkirk Council 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Other information in the annual report

The Chief Financial 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 2018.

### Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

### Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

# 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 (continued)

### Use of our report

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



ERNST & YOUNG LLP

Hassan Rohimun,

for and on behalf of Ernst & Young LLP, Appointed Auditor  
2 St Peter's Square, Manchester M2 3DF

Date: 27 SEPTEMBER 2019

### 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 and Net Asset Statement

## 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.

| 2017/18<br>£'000 |   | 2018/19<br>£'000 | Note       |
|------------------|---|------------------|------------|
|                  | <b>Dealings with members, employers and others directly involved in the fund</b>        |                  |            |
| (80,398)         | Contributions   | (86,877)         | <u>7</u>   |
| (3,482)          | Transfers in from other pension funds   | (5,877)          | <u>8</u>   |
| <b>(83,880)</b>  |   | <b>(92,754)</b>  |            |
| 68,703           | Benefits  | 72,858           | <u>9</u>   |
| 6,215            | Payments to and on account of leavers   | 5,603            | <u>10</u>  |
| <b>74,918</b>    |   | <b>78,461</b>    |            |
| <b>(8,962)</b>   | <b>Net (additions)/withdrawals from dealings with members</b>                           | <b>(14,293)</b>  |            |
| 11,305           | Management expenses   | 12,707           | <u>11</u>  |
| <b>2,343</b>     | <b>Net (additions)/withdrawals including fund management expenses</b>                   | <b>(1,586)</b>   |            |
|                  | <b>Returns on investments</b>   |                  |            |
| (37,721)         | Investment income   | (42,270)         | <u>12</u>  |
| 1,309            | Taxes on income   | 1,165            |            |
| (35,996)         | Profit and losses on disposal of investments and changes in market value of investments | (158,598)        | <u>14a</u> |
| <b>(72,408)</b>  | <b>Net return on investments</b>  | <b>(199,703)</b> |            |
| <b>(70,065)</b>  | <b>Net (increase)/decrease in the net assets available for benefits during the year</b> | <b>(201,289)</b> |            |
| <b>2,218,825</b> | <b>Opening net assets of the scheme</b>   | <b>2,288,890</b> |            |
| <b>2,288,890</b> | <b>Closing net assets of the scheme</b>   | <b>2,490,179</b> |            |

# Pension Fund Account and Net Asset Statement

## 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.

| 2017/18<br>£'000 |  | 2018/19<br>£'000 | Note      |
|------------------|--|------------------|-----------|
| 2,290,809        | Investment assets  | 2,503,123        | <u>14</u> |
| (8,806)          | Investment liabilities   | (22,470)         | <u>14</u> |
| <b>2,282,003</b> | <b>Total net investments</b>   | <b>2,480,653</b> |           |
| 9,858            | Current assets   | 12,871           | <u>21</u> |
| (2,971)          | Current liabilities  | (3,345)          | <u>22</u> |
| <b>2,288,890</b> | <b>Net Assets of the fund available to fund benefits at the period end</b> | <b>2,490,179</b> |           |

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 27 June 2019 and the audited accounts were authorised for issue on 26 September 2019. The Statements of Accounts present a true and fair view of the financial position of the Pension Fund as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.



**Bryan Smail, CPFA MBA**  
**Chief Finance Officer (Falkirk Council)**  
**26 September 2019**

## Notes to the Accounts

### 1. Fund and Scheme Overview

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

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

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

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 27](#) 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<br>1 April 2009   | Service post<br>31 March 2009   | Service post<br>31 March 2015   |
|----------|---|---|---|
| Pension  | Each year worked is worth 1/80 <sup>th</sup> x final pensionable salary   | Each year worked is worth 1/60 <sup>th</sup> x final pensionable salary   | Each year worked is worth 1/49 of pensionable earnings  |
| Lump Sum | Automatic lump sum of 3 x annual pension<br><br>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<br><br>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<br><br>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](http://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. The last completed valuation was as 31 March 2017, which set the rates for 3 year period starting from 2018/19 to 2020/21. For the majority of employers, contribution rates were in a range of 19% – 35% of pensionable pay. A copy of 2017 Valuation Report can be found at [www.falkirkpensionfund.org](http://www.falkirkpensionfund.org).

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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. No such accounting standards have been identified for 2018/19.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligation to pay pensions and benefits which fall due after the end of financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement or in the note notes to the accounts by appending an actuarial report for this purpose. The Fund has opted to disclose this information in [Note 20](#).

The accounts have been prepared on going concern basis.

## 3. Summary of Significant Accounting Policies

### Fund Account - revenue recognition

#### a) Contribution income

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

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

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate included in the actuarial valuation report.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

Any amount due in the year but unpaid will be classed as current financial asset.

#### b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund 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 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 receipts basis and are included in Transfers In Note 8.

#### c) Investment income

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

### Fund Account - expense items

#### d) Benefits payable

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

#### e) Taxation

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

#### f) Management Expenses

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

- **Administrative Expenses**  
All staff costs of the Pensions Administration Section are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- **Oversight and Governance Costs**  
All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- **Investment Management Expenses**  
Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in [Note 11a](#) and grossed up to increase the change in value of investments.

Fees of external investment managers and the 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 these investments change.

### 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 directly owned property was valued at 31 March 2019 by independent external valuers on the fair value basis and in accordance with the requirements of the RICS Valuation – Global Standards 2017 and the UK National Supplement and IFRS, see [Note 16](#) for more details.

#### i) Foreign currency transactions and balances

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

#### j) 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

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

### m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statements (see [Note 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. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in [Note 23](#).

### o) Contingent assets and contingent liabilities

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

A contingent liability arises where an event 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.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see [Note 25](#) and [Note 26](#)).

## 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 industry guidelines.

The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in [Note 20](#).

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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- [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 2019            | Approximate % increase in liabilities | Approximate monetary amount (£m) |
|---|---------------------------------------|----------------------------------|
| <b>0.5% decrease in Real Discount Rate</b>        | <b>11%</b>                            | <b>369</b>                       |
| <b>0.5% increase in the Salary Increase Rate</b>  | <b>2%</b>                             | <b>61</b>                        |
| <b>0.5% increase in the Pension Increase Rate</b> | <b>8%</b>                             | <b>284</b>                       |

- Private equity/infrastructure investments/private debt (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, infrastructure and private debt investments are valued in the financial statements at £255m. There is a risk that these investments may be under or overstated in the accounts by £37.4m.

- 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 £2.6m.

## 6. Events after the Balance Sheet Date

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 27 June 2019 and the audited Statement of Accounts were authorised for issue on 26 September 2019. 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.

Since the balance sheet date, the following events have occurred which are deemed to be reportable but not material to the financial statements.

### Private Equity/Infrastructure Valuation

The Fund has received updated Private Equity/Infrastructure statements for 31 March 2019. The variance between the valuation included in the accounts and the updated statements amounts to £4.7m (£8.6m at 31 March 2018). The amount is not material and therefore no adjustment has been made in the Net Asset Statement.

### Implications of McCloud and Sargeant Rulings

When the LGPS benefit structure was reformed in 2015, transitional protection were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2015 by these members are therefore subject to an ‘underpin’ which means that they cannot be lower than what they would have received under the previous benefit structure. The ‘underpin’ ensures that the members do not lose out from introduction of the new arrangements, by effectively giving them the better of the benefits from the old and new version of the scheme.

Following legal proceedings argued in the McCloud and Sargeant cases, the Court of Appeal found that the transitional provisions introduced in the judges and firefighters’ pension schemes in 2015 gave rise to unlawful age discrimination. The UK Government requested leave to appeal this finding but this was refused by the Supreme Court on 27 June 2019. The UK Government has formally accepted the Court’s decision and, recognising the implications for all public-sector pension schemes, is engaging with relevant representatives to agree how the discrimination will be remedied.

The Government Actuary’s Department (“GAD”) has estimated that the impact of the McCloud/Sargeant rulings for the LGPS as a whole could be to increase active member liabilities by approximately 3.2%.



This is based on various assumptions, including CPI to increase at 2.3% pa, earnings to increase at 3.8% pa and members to have an average age of 46.

The Fund's own actuary has adjusted GAD's estimate to better reflect Falkirk Council Pension Fund's local assumptions, particularly in relation to withdrawal rates and salary increases. The adjusted estimate could mean an increase in Fund liabilities of 0.4% as at 31 March 2019 (approximately £13m). The Fund has considered the assumptions used by the actuary and is satisfied that these are appropriate for the purpose of estimating the impact of the McCloud judgment in the accounts.

These numbers are estimates derived through a combination of Scheme and Fund level calculations. They are based on the best available information and depend on various key assumptions which may or not be borne out in practice. The final cost may be higher or lower depending on actual salary and CPI inflation, the method of legal remedy, the number of members affected, and their age profile.

It will be a matter for the UK and Scottish Governments to engage with representatives of Public Sector Pension Schemes to agree the means and method of redress and bring forward the appropriate legislation to amend scheme rules.

## 7. Contributions Receivable

### By Category

| 2017/18<br>£'000 |   | 2018/19<br>£'000 |
|------------------|---|------------------|
| 18,026           | Employees' contributions                  | 18,720           |
| 59,936           | Employers' contributions                  | 65,745           |
| 2,436            | Employers' deficit recovery contributions | 2,412            |
| <b>80,398</b>    | <b>Total</b>                              | <b>86,877</b>    |

### By Authority

| 2017/18<br>£'000 |                         | 2018/19<br>£'000 |
|------------------|-------------------------|------------------|
| 26,944           | Administering authority | 28,726           |
| 43,997           | Other scheduled bodies  | 48,184           |
| 9,457            | Admitted bodies         | 9,967            |
| <b>80,398</b>    | <b>Total</b>            | <b>86,877</b>    |

## 8. Transfers from Other Pension Funds

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

| 2017/18<br>£'000 |                      | 2018/19<br>£'000 |
|------------------|----------------------|------------------|
| 3,482            | Individual transfers | 5,877            |

## 9. Benefits Payable

### By Category

| 2017/18<br>£'000 |  | 2018/19<br>£'000 |
|------------------|--|------------------|
| 52,758           | Pensions                                     | 56,127           |
| 13,778           | Commutation and lump sum retirement benefits | 15,158           |
| 2,167            | Lump sum death benefits                      | 1,573            |
| <b>68,703</b>    | <b>Total</b>                                 | <b>72,858</b>    |

# Notes to the Accounts

## By Authority

| 2017/18<br>£'000 |                         | 2018/19<br>£'000 |
|------------------|-------------------------|------------------|
| 24,236           | Administering authority | 25,867           |
| 41,146           | Other scheduled bodies  | 42,966           |
| 3,321            | Admitted bodies         | 4,025            |
| <b>68,703</b>    | <b>Total</b>            | <b>72,858</b>    |

## 10. Payments to and on Account of Leavers

| 2017/18<br>£'000 |                                    | 2018/19<br>£'000 |
|------------------|------------------------------------|------------------|
| 246              | Refunds to members leaving service | 232              |
| 5,969            | Individual transfers               | 5,371            |
| <b>6,215</b>     | <b>Total</b>                       | <b>5,603</b>     |

## 11. Management Expenses

| 2017/18<br>£'000 |                                | 2018/19<br>£'000 |
|------------------|--------------------------------|------------------|
| 749              | Administrative costs           | 776              |
| 10,053           | Investment management expenses | 11,290           |
| 503              | Oversight and governance costs | 641              |
| <b>11,305</b>    | <b>Total</b>                   | <b>12,707</b>    |

## 11a. Investment Management Expenses

| 2017/18<br>£'000 |                                       | 2018/19<br>£'000 |
|------------------|---------------------------------------|------------------|
| 4,961            | Management fees invoiced              | 5,422            |
| 3,489            | Management fees deducted from capital | 4,189            |
| 613              | Transaction costs                     | 636              |
| 861              | Performance related fees              | 929              |
| 126              | Custody fees                          | 100              |
| 3                | Other                                 | 14               |
| <b>10,053</b>    | <b>Total</b>                          | <b>11,290</b>    |

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 2018/19 is £3.7m (£3.7m in 2017/18).

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

| 2017/18<br>£'000 |                             | 2018/19<br>£'000 |
|------------------|-----------------------------|------------------|
| 26,111           | Income from equities        | 29,511           |
| 841              | Private equity income       | 1,207            |
| 6,667            | Pooled property investments | 5,009            |
| 223              | Directly owned property     | 230              |
| 3,472            | Infrastructure              | 5,268            |
| -                | - Private debt              | 154              |
| 407              | Cash and other income       | 891              |
| <b>37,721</b>    | <b>Total</b>                | <b>42,270</b>    |

## 13. Other Fund Account Disclosures

### 13a. External Audit Costs

| 2017/18<br>£'000                        | 2018/19<br>£'000 |
|---|------------------|
| 20 Payable in respect of external audit | 24               |

## 14. Investments

| Market<br>Value<br>31/03/18<br>£'000 | Investment Assets                   | Market<br>Value<br>31/03/19<br>£'000 |
|--------------------------------------|-------------------------------------|--------------------------------------|
| <b>Investment Assets</b>             |                                     |                                      |
| 4,181                                | Bonds                               | 4,815                                |
| 849,972                              | Equities                            | 942,580                              |
| 931,009                              | Pooled investments                  | 980,187                              |
| 137,120                              | Managed property funds              | 147,628                              |
| 2,500                                | Directly owned property             | 2,600                                |
| 58,780                               | Private equity                      | 57,640                               |
| 145,369                              | Infrastructure                      | 179,406                              |
| 2,180                                | Private debt                        | 18,438                               |
|                                      | Derivative contracts:               |                                      |
| 95                                   | • Purchased/written options         | -                                    |
| 158                                  | • Forward currency contracts        | 226                                  |
| 147,392                              | Cash deposits                       | 140,041                              |
| 4,071                                | Investment income due               | 5,125                                |
| 7,982                                | Amounts receivable for sales        | 24,437                               |
| <b>2,290,809</b>                     | <b>Total Investment Assets</b>      | <b>2,503,123</b>                     |
| <b>Investment Liabilities</b>        |                                     |                                      |
| (8,806)                              | Amounts payable for purchases       | (22,470)                             |
| <b>(8,806)</b>                       | <b>Total Investment Liabilities</b> | <b>(22,470)</b>                      |
| <b>2,282,003</b>                     | <b>Net Investment Assets</b>        | <b>2,480,653</b>                     |

# Notes to the Accounts

## 14a. Reconciliation of Movements in Investments and Derivatives

| Period 2018/19<br>Investment Assets           | Market<br>Value<br>01/04/18<br>£'000 | Purchases<br>at Cost<br>£'000 | Sale<br>Proceeds<br>£'000 | Change in<br>Market<br>Value<br>£'000 | Market<br>Value<br>31/03/19<br>£'000 |
|---|--------------------------------------|-------------------------------|---------------------------|---------------------------------------|--------------------------------------|
| Bonds   | 4,181                                | -                             | -                         | 634                                   | 4,815                                |
| Equities                                      | 849,972                              | 338,573                       | (307,482)                 | 61,517                                | 942,580                              |
| Pooled investments                            | 931,009                              | -                             | (1,161)                   | 50,339                                | 980,187                              |
| Managed property funds                        | 137,120                              | 14,290                        | (6,752)                   | 2,970                                 | 147,628                              |
| Directly owned property                       | 2,500                                | -                             | -                         | 100                                   | 2,600                                |
| Private equity                                | 58,780                               | 3,415                         | (15,870)                  | 11,315                                | 57,640                               |
| Infrastructure                                | 145,369                              | 35,363                        | (30,166)                  | 28,840                                | 179,406                              |
| Private debt                                  | 2,180                                | 16,913                        | (751)                     | 96                                    | 18,438                               |
| Derivatives                                   |                                      |                               |                           |                                       |                                      |
| • Options                                     | 95                                   | 971                           | (986)                     | (80)                                  | -                                    |
| • Forward foreign exchange                    | 158                                  | 223                           | (1,459)                   | 1,304                                 | 226                                  |
|   | <b>2,131,364</b>                     | <b>409,748</b>                | <b>(364,627)</b>          | <b>157,035</b>                        | <b>2,333,520</b>                     |
| Cash deposits                                 | 147,392                              |                               |                           | 1,563                                 | 140,041                              |
| Amounts receivable for sale<br>of investments | 7,982                                |                               |                           |                                       | 24,437                               |
| Investment income due                         | 4,071                                |                               |                           |                                       | 5,125                                |
| Payable for purchases of<br>investments       | (8,806)                              |                               |                           |                                       | (22,470)                             |
| <b>Net Investment Assets</b>                  | <b>2,282,003</b>                     |                               |                           | <b>158,598</b>                        | <b>2,480,653</b>                     |

| Period 2017/18<br>Investment Assets           | Market<br>Value<br>01/04/17<br>£'000 | Purchases<br>at Cost<br>£'000 | Sale<br>Proceeds<br>£'000 | Change in<br>Market<br>Value<br>£'000 | Market<br>Value<br>31/03/18<br>£'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                              |
| Directly owned property                       | 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                                  |
|   | <b>2,059,331</b>                     | <b>296,094</b>                | <b>(263,031)</b>          | <b>38,970</b>                         | <b>2,131,364</b>                     |
| Cash deposits                                 | 107,755                              | 380                           |                           | (2,974)                               | 147,392                              |
| Amounts receivable for sale of<br>investments | 78,912                               |                               |                           |                                       | 7,982                                |
| Investment income due                         | 3,359                                |                               |                           |                                       | 4,071                                |
| Payable for purchases of<br>investments       | (38,543)                             |                               |                           |                                       | (8,806)                              |
| <b>Net Investment Assets</b>                  | <b>2,210,814</b>                     |                               |                           | <b>35,996</b>                         | <b>2,282,003</b>                     |

## 14b. Analysis of Investments

| 31/03/18<br>£'000 |                                      | 31/03/19<br>£'000 |
|-------------------|--------------------------------------|-------------------|
| 4,181             | <b>UK Corporate Bonds</b>            | 4,815             |
|                   | <b>Quoted Equities</b>               |                   |
| 357,498           | UK                                   | 379,997           |
| 492,474           | Overseas                             | 562,583           |
| <b>849,972</b>    |                                      | <b>942,580</b>    |
|                   | <b>Pooled funds</b>                  |                   |
| 146,231           | Equities – UK                        | 164,886           |
| 344,651           | – Overseas                           | 366,757           |
| 125,467           | Bonds – UK                           | 119,744           |
| 51,746            | – Overseas                           | 64,478            |
| 238,469           | Diversified growth                   | 240,298           |
| 24,445            | Social & affordable housing          | 24,024            |
| <b>931,009</b>    |                                      | <b>980,187</b>    |
|                   | <b>Property</b>                      |                   |
| 135,816           | Pooled property funds - UK           | 127,055           |
| 1,304             | - Overseas                           | 20,573            |
| 2,500             | Directly owned property - UK         | 2,600             |
| <b>139,620</b>    |                                      | <b>150,228</b>    |
|                   | <b>Private Equity</b>                |                   |
| 58,780            | Overseas funds                       | 57,640            |
| <b>58,780</b>     |                                      | <b>57,640</b>     |
|                   | <b>Private Debt</b>                  |                   |
| 2,180             | UK funds                             | 1,599             |
| -                 | Overseas                             | 16,839            |
| <b>2,180</b>      |                                      | <b>18,438</b>     |
|                   | <b>Infrastructure</b>                |                   |
| 66,913            | Pooled infrastructure funds – UK     | 94,230            |
| 78,456            | – Overseas                           | 85,176            |
| <b>145,369</b>    |                                      | <b>179,406</b>    |
|                   | <b>Derivatives</b>                   |                   |
| 95                | Options                              | -                 |
| 158               | Forward foreign exchange             | 226               |
| <b>253</b>        |                                      | <b>226</b>        |
| <b>147,392</b>    | <b>Cash deposits</b>                 | <b>140,041</b>    |
| <b>4,071</b>      | <b>Investment income due</b>         | <b>5,125</b>      |
| <b>7,982</b>      | <b>Amounts receivable from sales</b> | <b>24,437</b>     |
| <b>2,290,809</b>  | <b>Total investment assets</b>       | <b>2,503,123</b>  |
|                   | <b>Investment liabilities</b>        |                   |
| (8,806)           | Amounts payable for purchases        | (22,470)          |
| <b>(8,806)</b>    | <b>Total investment liabilities</b>  | <b>(22,470)</b>   |
| <b>2,282,003</b>  | <b>Net investment assets</b>         | <b>2,480,653</b>  |

## 14c. Investments Analysed By Fund Manager

| Market Value<br>31/03/2018 |              |   | Market Value<br>31/03/2019 |            |
|----------------------------|--------------|---|----------------------------|------------|
| £'m                        | (%)          |   | £'m                        | (%)        |
| 366                        | 16.0         | Newton Investment Management Ltd  | 423                        | 17.1       |
| 265                        | 11.7         | Aberdeen Standard Investment  | 280                        | 11.3       |
| 381                        | 16.7         | L&G Investment Management Ltd – Passive<br>L&G Investment Management –Fundamental | 414                        | 16.7       |
| 110                        | 4.8          | Weighting   | 118                        | 4.7        |
| 293                        | 12.8         | Schroder Investment Management Ltd  | 310                        | 12.5       |
| 150                        | 6.6          | Schroder Investment Management Ltd (Property)                                     | 156                        | 6.3        |
| 177                        | 7.8          | Baillie Gifford & Co Ltd – Bonds  | 184                        | 7.4        |
| 238                        | 10.4         | Baillie Gifford & Co Ltd – Diversified Growth                                     | 240                        | 9.7        |
| 28                         | 1.2          | Wilshire Private Markets Group  | 31                         | 1.2        |
| 24                         | 1.1          | Hearthstone   | 24                         | 1.0        |
| 69                         | 3.0          | Grosvenor Capital   | 67                         | 2.7        |
| 26                         | 1.1          | Ancala Partners   | 31                         | 1.2        |
| 16                         | 0.7          | Dalmore Capital   | 38                         | 1.5        |
| 14                         | 0.6          | Equitix Investment Management   | 15                         | 0.6        |
| 7                          | 0.3          | Harbert Management Corporation  | 8                          | 0.3        |
| 7                          | 0.3          | InfraRed Capital Partners Ltd   | 7                          | 0.3        |
| 6                          | 0.3          | UBS/Greensands  | 6                          | 0.2        |
| 3                          | 0.1          | KKR   | 6                          | 0.2        |
| -                          | -            | Brookfield Global Funds   | 5                          | 0.2        |
| 4                          | 0.2          | FIM Harburnhead LP  | 3                          | 0.1        |
| -                          | -            | Blackrock   | 11                         | 0.5        |
| -                          | -            | Alcentra  | 4                          | 0.2        |
| -                          | -            | Barings   | 2                          | 0.1        |
| 2                          | 0.1          | M&G UK Companies  | 2                          | 0.1        |
| 3                          | 0.1          | Directly owned property   | 3                          | 0.1        |
| 93                         | 4.1          | In House Cash   | 93                         | 3.8        |
| <b>2,282</b>               | <b>100.0</b> | <b>Total</b>  | <b>2,481</b>               | <b>100</b> |

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

|                                    | 31/03/2018 |      | 31/03/2019 |     |
|------------------------------------|------------|------|------------|-----|
|                                    | £'000      | %    | £'000      | %   |
| Baillie Gifford Diversified Growth | 238,469    | 10.4 | 240,298    | 9.7 |
| L&G UK Equity Index (OFC)          | 136,407    | 6.1  | 153,130    | 6.2 |
| L&G N America Equity Index (OFC)   | 126,829    | 5.6  | 138,868    | 5.6 |

## 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:

| 2017/18<br>£'000 |                            | 2018/19<br>£'000 |
|------------------|----------------------------|------------------|
| 217              | Within one year            | 232              |
| 657              | Between one and five years | 577              |
| 127              | Later than five years      | 56               |
| <b>1,001</b>     | <b>Total</b>               | <b>865</b>       |

## 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 0.05% of their portfolio's value.

| Settlement  | Currency bought | Local Value | Currency Sold | Local Value | Asset Value  | Liability Value |
|---|-----------------|-------------|---------------|-------------|--------------|-----------------|
|   |                 | <b>000</b>  |               | <b>000</b>  | <b>£'000</b> | <b>£'000</b>    |
| One to six months                                       | JPY             | 943         | GBP           | (942)       | 1            |                 |
| One to six months                                       | USD             | 9,697       | GBP           | (9,605)     | 92           |                 |
| One to six months                                       | USD             | 15,477      | EUR           | (15,344)    | 133          |                 |
| <b>Open forward currency contracts at 31 March 2019</b> |                 |             |               |             | <b>226</b>   | <b>0</b>        |
| <b>Net forward currency contracts at 31 March 2019</b>  |                 |             |               |             | <b>226</b>   |                 |

Prior year comparative

|   |  |  |  |  |            |             |
|---|--|--|--|--|------------|-------------|
| <b>Open forward currency contracts at 31 March 2018</b> |  |  |  |  | <b>178</b> | <b>(20)</b> |
| <b>Net forward currency contracts at 31 March 2018</b>  |  |  |  |  | <b>158</b> |             |

The above currency forwards contracts are used as hedges reducing the extent to which Newton's portfolio is exposed to currency 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<br><br>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 at year end by external valuer DM Hall/ Graham and Sibbald in accordance with the RICS Valuation Standards  | Existing lease terms and rentals<br>Independent market research<br>Covenant strength for existing tenants          | Significant changes in the rental growth, vacancy levels and general changes in the market conditions  |
| Private Equity/ Infrastructure/Private Debt                    | Level 3             | Valuation in accordance with the International Private Equity and Venture Capital Valuation Guidelines             | Discount rate<br>Projected future cash flow<br>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 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 2019.

|                               | Assessed valuation range (+/-) | Value at 31 March 2019 in £'000 | Value on increase in £'000 | Value on decrease in £'000 |
|-------------------------------|--------------------------------|---------------------------------|----------------------------|----------------------------|
| Infrastructure                | 15%                            | 179,406                         | 206,317                    | 152,495                    |
| Private Debt                  | 10%                            | 18,438                          | 20,282                     | 16,594                     |
| Private Equity                | 15%                            | 57,640                          | 66,286                     | 48,994                     |
| Social and Affordable Housing | 10%                            | 24,024                          | 26,426                     | 21,622                     |
| Property                      | 8%                             | 2,600                           | 2,808                      | 2,392                      |
|                               |                                | <b>282,108</b>                  | <b>322,119</b>             | <b>242,097</b>             |

## 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 2019                                    | £'000                       | £'000                           | £'000  | £'000            |
| Financial assets at fair value through profit & loss       | 941,833                     | 1,109,579                       | 279,508                                      | 2,330,920        |
| Non-financial assets at fair value through profit and loss | -                           | -                               | 2,600  | 2,600            |
| <b>Net investment assets</b>                               | <b>941,833</b>              | <b>1,109,579</b>                | <b>282,108</b>                               | <b>2,333,520</b> |



## 17b. Net Gains and Losses on Financial Instruments

| 31 March<br>2018<br>£'000 |                                    | 31 March<br>2019<br>£'000 |
|---------------------------|------------------------------------|---------------------------|
|                           | <b>Financial assets</b>            |                           |
| 38,158                    | Fair value through profit and loss | 157,018                   |
| -                         | Amortised cost – unrealised gains  | 1,560                     |
|                           | <b>Financial liabilities</b>       |                           |
| 812                       | Fair value through profit and loss | (80)                      |
| (2,974)                   | Amortised cost – unrealised losses |                           |
| <b>35,996</b>             | <b>Total</b>                       | <b>158,498</b>            |

## 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 Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

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

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

(ii) **Interest Rate Risk**

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

The Fund's interest rate risk is recognised by the Fund and its investment advisors. The Fund monitors the interest rate risk faced and will adjust its strategy in accordance with its Statement of Investment Principles. The Fund's direct exposure to interest rate movement as at the 31 March 2019 is estimated to be around £471.5m (31 March 2018: £469.1m).

## (iii) Currency Risk

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

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

The Fund's currency exposure as at the 31 March 2019 is estimated to be around £756m (31 March 2018: £764m).

## (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 2019 accounted for 9.95% of fund assets (31 March 2018: 11.2%).

| Balances at<br>31 March<br>2018<br>£'000 |   | Moody's Credit<br>Rating/ S&P<br>Rating | Balances<br>at<br>31 March<br>2019<br>£'000 |
|--|---|---|---|
| <b>Held for investment purposes</b>      |   |   |   |
| 90,469                                   | Northern Trust Global Investment Limited –<br>Liquidity Funds | Aa2                                     | 84,090                                      |
| 5,000                                    | Aberdeen Standard Liquidity Fund (Lux)<br>Sterling            | AAA-mf                                  | 5,000                                       |
| 25,108                                   | Northern Trust Company – Cash Deposits                        | Aa2                                     | 23,753                                      |
| 2,019                                    | Santander UK PLC  | Aa3                                     | 4,031                                       |
| 4,064                                    | Bank of Scotland PLC  | Aa3                                     | 5,083                                       |
| <b>126,660</b>                           | <b>Total investment cash</b>                                  |   | <b>121,957</b>                              |
| <b>Held for other purposes</b>           |   |   |   |
| 3,791                                    | Clydesdale Bank   |   | -   |
| 78                                       | Royal Bank of Scotland  | A1                                      | 3,878                                       |
| <b>130,529</b>                           | <b>Total cash</b>   |   | <b>125,835</b>                              |

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.

## (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 79.5%) 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              | 7.5%                              |
| Diversified Credit           | 11.0%                             |
| Fixed Interest Gilts         | 6.7%                              |
| Index-Linked Gilts           | 11.2%                             |
| Cash                         | 0.9%                              |

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 2019

| Asset Type  | Asset Value (£'m) | Asset Weight  | Volatility   | Potential Change +/- (£'m) | Value on increase (£'m) | Value on decrease (£'m) |
|---|-------------------|---------------|--------------|----------------------------|-------------------------|-------------------------|
| Equities - Developed Markets                                  | 1,444.9           | 58.2%         | 20.5%        | 296.2                      | 1,741.1                 | 1,148.7                 |
| Equities - Emerging Markets                                   | 78.6              | 3.2%          | 30.0%        | 23.6                       | 102.1                   | 55.0                    |
| Private Equity  | 58.8              | 2.4%          | 30.0%        | 17.7                       | 76.5                    | 41.2                    |
| Private Debt  | 18.4              | 0.7%          | 10.0%        | 1.8                        | 20.3                    | 16.6                    |
| Commodities   | 7.7               | 0.3%          | 30.0%        | 2.3                        | 10.0                    | 5.4                     |
| Property – Balanced   | 193.5             | 7.8%          | 13.0%        | 25.2                       | 218.6                   | 168.3                   |
| Infrastructure  | 207.3             | 8.4%          | 12.0%        | 24.9                       | 232.1                   | 182.4                   |
| Corporate Bonds   | 97.2              | 3.9%          | 7.5%         | 7.3                        | 104.5                   | 89.9                    |
| Diversified Credit  | 40.4              | 1.6%          | 11.0%        | 4.4                        | 44.8                    | 35.9                    |
| Fixed Interest Gilts  | 122.3             | 4.9%          | 6.7%         | 8.2                        | 130.5                   | 114.1                   |
| Index-Linked Gilts  | 44.0              | 1.8%          | 11.2%        | 4.9                        | 49.0                    | 39.1                    |
| Cash  | 167.6             | 6.8%          | 0.9%         | 1.6                        | 169.1                   | 166.0                   |
| <b>Total Assets (without correlations)</b>                    | <b>2,480.7</b>    | <b>100.0%</b> | <b>16.9%</b> | <b>418.1</b>               | <b>2,898.6</b>          | <b>2062.6</b>           |
| <b>Total Assets (including correlations)</b>                  | <b>2,480.7</b>    |               | <b>13.9%</b> | <b>344.4</b>               | <b>2,825.1</b>          | <b>2,132.2</b>          |
| <b>Assets Relative to Liabilities (including correlation)</b> | <b>2,480.7</b>    |               | <b>14.2%</b> | <b>351.6</b>               | <b>2,832.3</b>          | <b>N/A</b>              |

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 2018 are set out in the table below.

## 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                   |
| <b>Total Assets (without correlations)</b>                    | <b>2,282.0</b>    | <b>100.0%</b> | <b>16.7%</b> | <b>382.3</b>               | <b>2,664.3</b>          | <b>1,899.7</b>          |
| <b>Total Assets (including correlations)</b>                  | <b>2,282.5</b>    |               | <b>14.0%</b> | <b>319.0</b>               | <b>2,601.5</b>          | <b>1,963.4</b>          |
| <b>Assets Relative to Liabilities (including correlation)</b> | <b>2,282.5</b>    |               | <b>14.0%</b> | <b>319.7</b>               | <b>2,602.2</b>          | <b>N/A</b>              |

## 19. Funding arrangements

In line with 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 last such valuation took place as at 31 March 2017 and the next valuation is due to take place as at 31 March 2020.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading increases in rates over a period of time. Normally this is three years. Solvency is achieved when the funds held plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will put in place requiring additional employer contributions.

At the 2017 actuarial valuation, the Fund was assessed as 92% funded (85% at the March 2014 valuation). This corresponded to a deficit of £184m (2014 valuation: £283m) at the time. Contribution increases will be phased in over the three-year period ending 31 March 2021 for both scheme employers and admitted bodies. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

| Primary Rate (% of pay)<br>1 April 2018 - 31 March 2021 | Secondary Rate (£) |            |            |
|---|--------------------|------------|------------|
|   | 2018/19            | 2019/20    | 2020/21    |
| 18.7 %  | 8,506,000          | 10,248,000 | 11,729,000 |

The key principal assumptions used in the valuations were as follows:

### Financial Assumptions

| Assumption                        | 31 March 2014 | 31 March 2017 |
|-----------------------------------|---------------|---------------|
| Return on long-dated gilts        | 3.5%          | 1.7%          |
| Asset outperformance assumption   | 1.6%          | 1.8%          |
| Retail Prices Inflation (RPI)     | 3.5%          | 3.4%          |
| Assumed RPI/CPI gap               | (0.8)%        | (1)%          |
| Benefit increase assumption (CPI) | 2.7%          | 2.4%          |
| Pay increases                     | 4.0%          | 2.9%          |

### Demographic Assumptions

The life expectancy assumption is based on the Fund's Club Vita analysis with improvements in line with the CMI 2016 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:

|                | 31 March 2014 | 31 March 2017 |
|----------------|---------------|---------------|
| <b>Male</b>    |               |               |
| Pensioners     | 22.1 years    | 21.2 years    |
| Non-pensioners | 24.3 years    | 22.7 years    |
| <b>Female</b>  |               |               |
| Pensioners     | 23.8 years    | 23.7 years    |
| Non-pensioners | 26.3 years    | 25.5 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 2018/19. 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 [2017 Valuation Report](#) as well as the [Funding Strategy Statement](#) can be found on [www.falkirkpensionfund.org](http://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 2018<br>£'mln |   | 31 March 2019<br>£'mln |
|------------------------|---|------------------------|
| (2,959)                | Present value of promised retirement benefits | (3,363)                |
| 2,289                  | Fair value of scheme assets (bid value)       | 2,490                  |
| <b>(670)</b>           | <b>Net Liability</b>                          | <b>(873)</b>           |

As noted above, the liabilities are calculated on an IAS19 basis and will therefore differ from the results of the 2017 triennial funding valuation (see [Note 19](#)) because IAS19 stipulates a discount rate rather than a rate which reflects market rates. Other key assumptions used are:

| IAS19 Assumptions     | 2018/19<br>% | 2017/18<br>% |
|-----------------------|--------------|--------------|
| Discount rate         | 2.4          | 2.7          |
| Salary increase rate  | 3.0          | 2.9          |
| Pension increase rate | 2.5          | 2.4          |

## 21. Current Assets

| 31 March 2018<br>£'000 |   | 31 March 2019<br>£'000 |
|------------------------|---|------------------------|
| 4,938                  | Contributions due – employees           | 6,830                  |
| 1,456                  | Contributions due – employers           | 1,956                  |
| 110                    | Strain contribution (due within 1 year) | 180                    |
| 120                    | Transfer values receivable (joiners)    | -                      |
| 42                     | Sundry debtors                          | 37                     |
| 3,192                  | Cash balances                           | 3,868                  |
| <b>9,858</b>           | <b>Total</b>                            | <b>12,871</b>          |

## 22. Current Liabilities

| 31 March 2018<br>£'000 |                                   | 31 March 2019<br>£'000 |
|------------------------|-----------------------------------|------------------------|
| (1,080)                | Benefits payable                  | (745)                  |
| (261)                  | Transfer values payable (leavers) | (993)                  |
| (1,630)                | Sundry creditors                  | (1,607)                |
| <b>(2,971)</b>         | <b>Total</b>                      | <b>(3,345)</b>         |

## 23. Additional Voluntary Contributions

| 31 March 2018 |               | 31 March 2019 |
|---------------|---------------|---------------|
| £'000         |               | £'000         |
| 3,143         | Standard Life | 3,199         |
| 2,584         | Prudential    | 3,765         |
| <b>5,727</b>  | <b>Total</b>  | <b>6,964</b>  |

AVC contributions of £273k were paid directly to Standard Life (£296k in 2017/18) and £1,506k to Prudential during the year (£1,274k in 2017/18).

## 24. 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 £22.7m to the fund in 2018/19 (2017/18: £21.1m).

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 2019 the Fund owed the Council £11k (£0.7m in 2017/18) in respect of transactions between the Council and the Fund with payment transferred to the Council at the beginning of 2019/20.

### Governance

Four members of the Pensions Committee - D Balsillie, I McLean (part of the year), 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.

Each member of the Pension Fund Committee is required to declare their interest at each meeting.

### 24a. Key Management Personnel

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

| 31 March 2018 |                          | 31 March 2019 |
|---------------|--------------------------|---------------|
| £'000         |                          | £'000         |
| 89            | Short-term benefits      | 95            |
| 648           | Post-employment benefits | 720           |
| <b>737</b>    | <b>Total</b>             | <b>815</b>    |

## 25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2019 totalled £110.5m (31 March 2018 £87.7m).

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

### GMP Equalisation

Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the

new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men and women's benefits.

As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

The Fund's actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the liabilities of Falkirk Council Pension Fund for financial reporting purposes. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards.

The estimate as it applies to Falkirk Council Pension Fund is that total liabilities could be 0.19% higher as at 31 March 2019, an increase of approximately £6.26m.

These numbers are approximate estimates based on the membership data as at 31 March 2017 and will be revised at the next formal valuation of the Fund.

### **GMP Reconciliation**

The exercise known as GMP Reconciliation to reconcile HM Revenue contracted out records with those of pension funds is reaching a conclusion. The full cost implication of this is not yet known. The Scottish Ministers are expected to legislate that any LGPS pensions that have been overpaid due to incorrect GMPs being held should not be reduced. Instead it is expected that overpayments will be ring fenced and frozen at their current level.

## **26. 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.

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 [page 14-17](#) 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.£2.5bn) 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 49](#) 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 Fund's Risk Management arrangements
- the Corporate Risk Management Group and other Corporate Working Groups
- the recording and monitoring of audit recommendations via Council's system (Pentana)
- 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 value for money,

## 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 2019. 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 an annual programme of work informed by the content of the Fund's risk register 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 officers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Internal Audit reports are always brought to the attention of the Pensions Committee and Pension Board with any matters of significance being highlighted and commented upon by management. During 2018/19, there were no matters of significance which required to be brought to the attention of the Committee and Board.

# Annual Governance Statement 2018/19

During 2018/19, 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 2018/19, 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 27 June 2019.

## 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:

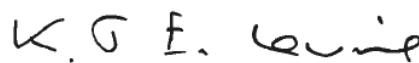
|   | Item  | Timescale     | Responsible Person | Committee Approval Required | Completion Date |
|---|---|---------------|--------------------|-----------------------------|-----------------|
| 1 | Written procedural instructions should be prepared on the processing of monthly contributions received from Fund employers. | June 2019     | Pensions Manager   | No                          | June 2019       |
| 2 | Establishing an Access Control Policy for the Pensions Administration System  | December 2018 | Pensions Manager   | No                          | August 2019     |

### Certification

This Annual Governance Statement summarises, openly and transparently, arrangements made by Falkirk Council Pension Fund for 2018/19 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

# 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   | <b>Full Compliance</b>                          | 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 | <b>Full Compliance</b>                          | 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   | <b>Full Compliance</b>                          | 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.   | <b>Not Compliant</b><br>(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.   |

# Governance Compliance Statement

## Principle B – Representation

| Requirement  | Level of Compliance   | Arrangements in Place  |
|--|---|--|
| <p>(a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <p>(i) Employing authorities (including e.g. admission bodies);</p> <p>(ii) Scheme members (including deferred and pensioner scheme members);</p> | <p><b>Full Compliance</b></p> <p><b>Full Compliance</b></p> | <p>Representatives of fund employers, including an admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee</p> <p>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.</p>   |
| <p>(iii) Where appropriate, independent professional observers; and</p>  | <p><b>Not Compliant</b></p>                                 | <p>There are no independent professional observers of Committee or Board business.</p> <p>It is considered that:</p> <ul style="list-style-type: none"> <li>• the diversity of representation; (employers, pensioner and Unions)</li> <li>• the Joint Investment Strategy Panel</li> <li>• the training arrangements;</li> <li>• the annual audit process; and</li> <li>• attendance of professional advisors</li> </ul> <p>provide robust and adequate scrutiny of pension fund business.</p> |
| <p>(iv) Expert advisors (on an ad-hoc basis).</p>  | <p><b>Full Compliance</b></p>                               | <p>Support for the Pensions Committee and Pension Board is provided by specialists in the following areas:</p> <ul style="list-style-type: none"> <li>• actuarial and investment advisers</li> <li>• corporate governance advisers</li> <li>• investment managers and custodian</li> </ul>   |
| <p>(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.</p>                                       | <p><b>Full Compliance</b></p>                               | <p>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.</p>   |



# Governance Compliance Statement

## 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 | <b>Full Compliance</b> | Members of the Pensions Committee will be subject to the agreed Code of Conduct.<br>Members of the Pension Board will be appointed on the understanding that they will be subject to the agreed Code of Conduct.<br>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.  | <b>Full Compliance</b> | 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. | <b>Full Compliance</b> | 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. | <b>Full Compliance</b> | The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pension Board members.<br>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.<br>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.  | <b>Full Compliance</b> | 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.  | <b>Full Compliance</b> | 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.  |

# Governance Compliance Statement

## 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.   | <b>Full Compliance</b> | 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.  | <b>Full Compliance</b> | Pension Board meetings are held concurrently with Pensions Committee meetings which will result in a minimum of four meetings per year.<br><br>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. | <b>Full Compliance</b> | 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. | <b>Full Compliance</b> | 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. | <b>Full Compliance</b> | 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. | <b>Full Compliance</b> | Through their representation on the Committee and Board, employers, Unions and Pensioners have been involved in the development of the Fund's governance arrangements<br>Full details of the Governance arrangements are published on the Fund's website. |

Chief Finance Officer  
Falkirk Council, 24th August 2017

### Actuarial Statement for 2018/19

#### Falkirk Council Pension Fund (“the Fund”)

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

#### Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy (FSS), dated March 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.

# Actuarial Statement

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

Since the last formal valuation, real bond yields have fallen placing a higher value on liabilities but there have been positive asset returns over the 2 years. The positive asset returns have slightly outweighed the impact of falling bond yields. 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  
13 May 2019**

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

### Scheduled and Admission Bodies as at 31 March 2019

#### 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 and SPSA)  
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  
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\*  
Smith Art Gallery  
Snowdon School Ltd  
Stirling District Tourism Ltd  
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  
Central Carers Association  
Central Scotland Council for Regional Equality  
Ceteris  
Open Secret  
Plus  
Seamab School  
Stirling University  
Stirling Enterprise (STEP)  
Waterwatch Scotland