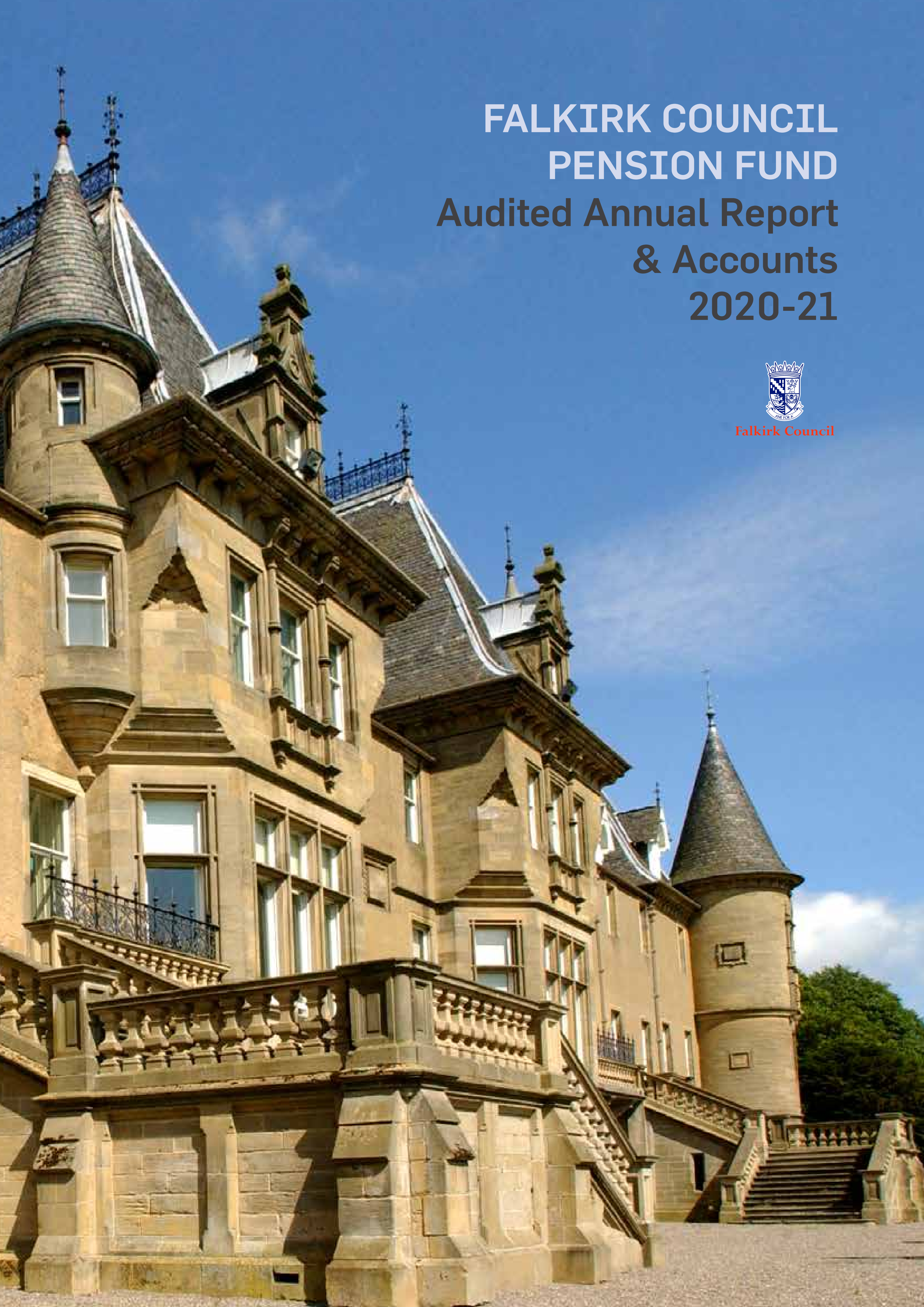

FALKIRK COUNCIL PENSION FUND

Audited Annual Report & Accounts 2020-21

Falkirk Council

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Foreword from the Chair of Pensions Committee

As Chair of the Pensions Committee with responsibility for overseeing the investment management and administration of the Falkirk Council Pension Fund ("the Fund"), I am pleased to introduce the 2020/21 Annual Report and Accounts.

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

By any stretch of the imagination, 2020/21 has been a quite remarkable year and I hope you and your families have stayed well amidst the scourge of the Covid-19 pandemic.

The outbreak of Covid-19, declared by the World Health Organization as a "global pandemic" on 11 March 2020, continues to impact many aspects of our daily lives with social distancing in place and (most) overseas travelling restricted even after more than a year. That these restrictions have eased in recent months is down to the vaccination programme and one can only applaud the efforts of those concerned in developing and rolling out the jabs so effectively.

As a body that strives to generate investment returns to help pay for member benefits, the success of the vaccine programme, along with Government stimuli on a global scale, has been crucial in re-vitalising economic growth and producing positive benefits for the Fund, particularly regarding the asset value. Whilst there is a cause for cautious optimism, we are by no means yet out of the woods and our trajectory back to a life free from restrictions will be dependent on our ability to contain any new strains of the virus. In the face of the Covid challenge, I am appreciative of the way the Pensions team have coped, adapting to the logistical and technical challenges in order to continue processing benefits for our almost 12,000 pensioners and 22,000 active and deferred members.

Employers across the Falkirk Fund will have had their own service delivery challenges and I am appreciative of their efforts in continuing to collect and remit pension contributions as normal. Of significance this year for both our employers and the Fund has been the triennial Valuation as at 31 March 2020 and I wish to thank Julie West, our actuary at Hymans Robertson and Debbie Macrae, our new Pensions Manager for working patiently with the employers to agree contribution rates for the next three years.

The Valuation has shown the Fund to be in a healthy state with a funding level of 94% at 31 March 2020. Pleasingly, this is estimated to have risen further by 31 March 2021 with the Fund having a market value of £2.8 billion. Although the Fund achieved a striking investment return of 22.3% in 2020/21, this tells only part of the

story which saw risk assets surge in response to vaccine efficacy, after having collapsed dramatically in March 2020 as the horrors of the pandemic unfolded. Dramatic as these events have been in a year also shaped by events such as UK / EU Trade negotiations, the US election and US/China tensions, the long term nature of the Fund means it can still afford to take a long-term view when it is investing. This is because it is open to new members and is sponsored by employers that are mostly Government backed or have revenue raising powers. It is also helpful that the Fund remains cash flow positive and under no pressure to be forced sellers of assets in times of market disruption. In these unpredictable times, the Fund's approach of holding a well-diversified range of assets including equities, property, infrastructure and bonds continues to prove a sound strategy.

The pandemic has been a sobering reminder that we should never take the world we live in for granted. I am therefore hopeful that post pandemic activity can be a springboard for us to build back more responsibly. The pandemic has changed the way we work, the way we shop and, I suspect the way we think about our environment. I am sure these new trends and behaviours are going to give rise to exciting new investment opportunities. Consistent with this, the Fund has committed to invest £150m in the Pictet Global Environmental Opportunities Fund – a vehicle whose investment thesis is built around protecting planetary needs.

I know that the Fund's role in trying to safeguard the environment is a top priority for many of our members. I can confirm that the Fund remains committed to playing an active part in the transition to a lower carbon world. We are members of several lobbying organisations which argue for a just transition and during 2020/21, we adopted a Statement of Responsible Investment Principles which for the first time reserves the right to divest from a company failing to address climate risks. Separately, we are in the process of appointing engagement specialists to challenge company boards on a range of corporate standards. And, in a year when the COP26 conference is being convened in Glasgow, we continue to support meaningful shareholder resolutions that press for climate risks to be properly respected. Recent examples of this have been the 2021 Shell and Exxon AGMs.

Readers of previous Annual Reports will know that the Fund supports the concept of the eleven Scottish LGPS Funds merging into larger entities. During 2020/21, the Fund jointly engaged consultants with Lothian Pension Fund to look more closely at the risks and opportunities that might be associated with merger. Despite being complex and challenging, the analysis and discussions have progressed well and continue. The Committee and Board members continue to be briefed regularly on the topic.

Operationally, during the year, despite the need to adapt to the challenges of Covid, the Pensions team have been able to revise the Funding Strategy Statement; conclude the Valuation; engage with consultants on merger; update the Cash Management Policy; draft the Statement of Responsible Investment Principles; and transfer the management of one of the Bond mandates to LPFI –

the investment vehicle of Lothian Pension Fund. As an aside, can I add that the Fund continues to appreciate and value our ongoing collaboration with colleagues at the Lothian Fund.
One trend accelerated by Covid is home working. This is now an accepted means of delivering services and can therefore be expected to continue. Linking in with this, the Pensions team (and other Council services) are moving to premises in Larbert in late summer 2021. I know the team will do their utmost to make this transition as smooth as possible. Planning for this is already underway with the digitising of records and the adoption of Office 365 for more mobile and flexible working. I wish the team well with this enterprise.

I'd like to take the opportunity to thank Alastair McGirr for his outstanding service to the Pensions Committee. As we are all aware Alastair has stepped back from Pensions Manager as he embarks on his flexible retirement journey. We haven't lost him yet; I know he is working as hard as ever in the background until his retirement.
Alastair came to Falkirk with the fund in 1996 from Central Region, he has been a dedicated officer and an invaluable manager of the fund. He will be sorely missed. I personally would like to thank Alastair for the support he has given me, as Convener of the Pensions Committee and wish him well in his future retirement.

Finally, in conclusion, can I take this opportunity to thank my colleagues on the Committee and Board for their dedication and efforts during the past year. A particular thanks is due to Simon Hunt, who most helpfully agreed to continue as Chair of the Board during 2020/21. To all readers, I hope you find the Annual Report and Accounts for 2020/21 helpful and informative.

Councillor Adanna McCue

Chair of the Pensions Committee

Statement from the Chair of the Pension Board

I wrote twelve months ago about the emerging issues arising from the Covid-19 pandemic, and I think it is fair to say that the virus and its impact on our professional and personal lives has continued to dominate the year under review. From the perspective of the running of the scheme, adaptability has been the name of the game. Virtual Committee and Board meetings became the norm from August onwards, once the practical and logistical challenges had been overcome, and after a flurry of 'catch-up' activity towards the end of 2020, meetings are firmly back in their regular cycle. The Falkirk Pensions team transitioned highly successfully to a home working model that initially prioritised meeting the immediate needs of members and employers, and quickly evolved to encompass 'business as usual' across all administration activities. The regular training and conference activities that are essential for Committee and Board members to keep their pensions and other relevant knowledge current were initially curtailed but have also evolved into an increasingly familiar online format.

More broadly, the pandemic's impact was also felt in the March 2020 triennial valuation outturn, with a dip in asset values coinciding with the valuation date, and in slowing progress on matters such as the Scheme Advisory Board's (SAB) review of the Scottish LGPS structure. Discussions on the future relationship of the Falkirk and Lothian funds have however progressed well, and the Board has been given full opportunity to provide its perspective and ensure appropriate governance around this and all other key matters. These have included (not an exhaustive list!) internal and external audit plans and reports, the funding strategy statement and triennial valuation, risk register updates, legislative and legal matters, and the Environmental, Social and Governance agenda, particularly the extent to the which the scheme can influence sustainable environmental practices through its investing and voting decisions.

The adaptations outlined above have enabled the Pension Board to continue to exercise its principal responsibilities in respect of assisting the Scheme manager with regulatory and legislative compliance in respect of the scheme's governance and administration. Board members have consistently attended Pension Committee meetings and have been given full opportunity to question the Scheme manager and their advisors on all important matters. A number of new Union representatives joined the Board during the year; continuity of employer representatives has provided stability, and the Board agreed that I stay on for a second year as Chair whereas normally the baton would have passed to a Union representative – that will now happen over the summer. The Board has not had to ask the Committee to review any of its decisions, which is further indication that the scheme's governance and administration is generally running well.

I offer my thanks on behalf of the Board for the outstanding efforts of the team under such difficult circumstances. And a final word for a very special thank you to Alastair McGirr, who has retired as Pensions Manager after many years of sterling service to the Board – including the hard work of getting this new entity up and running – the Committee, the Falkirk team and above all the scheme members for whom he worked tirelessly.

Simon Hunt

Chair of the Pension Board

Contact us

Enquiries

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Management of the Fund

Management of the Fund and Fund advisers

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

Fund Managers

Aberdeen Standard Investments	ANCALA	Alcentra	ALINDA	Baillie Gifford
BlackRock	Brookfield	Crestbridge	Dalmore Capit	equitix
Federated Hermes	GCM Grosvenor	Global Infrastructu Partners	Greensands	Gresham House
greensphere	Hearthstone Investments	InfraRed Capital Partners	innisfree	KKR Kohlberg Kravis Ro
Legal & General Investment Management	Madison Capit Funding A New York Life Investments Co	Macquarie	Newton Investment Management	nuveen Real Estate
Oaktree	Resonance	Schroders	Wilshire	

Annual Report and Accounts

This is the Annual Report and Accounts for the Falkirk Council Pension Fund for 2020/21.

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	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Funding Level	91%	92%	94%*	106%
Admin cost per member in £	22.32	22.41	25.96	26.72
Investment return %	3.1	8.5	-6.6	22.3
Performance v benchmark %	+0.6	+1.7	-6.9	+0.6
External audit outcome	Unqualified	Unqualified	Unqualified	Awaited

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

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

About the Falkirk Council Pension Fund
Falkirk Council is designated as an "Administering Authority" and is required to operate and maintain a pension fund - the Falkirk Council Pension Fund ("the Fund").
The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions are made by employee members and by participating employers. The Fund also receives income from its various investments.

The Fund operates under the terms of the Local Government Pension Scheme which is a public 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 in the Fund are either Scheduled Bodies – in which case they are legally required to offer the Scheme to their employees, or Admission Bodies – in

which case the body has applied to participate in the Fund and their application has been accepted.

The larger Fund employers are Clackmannanshire, Falkirk and Stirling Councils, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA) and Scottish Autism. Other employers include several non-profit making charitable bodies located in Central Scotland, as well as two contractors (Amey and Forth & Oban Ltd) to whom school facilities maintenance has been transferred. A full list of Fund employers is given in Appendix 2 and their contributions on page 32.

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

About the Local Government Pension Scheme (LGPS)

- The LGPS is a nationwide pension arrangement for persons working in local government and is one of the largest schemes in the UK with over 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 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 or www.pensions.gov.scot/local-government

Management Commentary

Summary

The defining event of 2020/21 for the Fund has been the Covid-19 pandemic and the various micro and macro implications that have ensued from that. Operationally, the Pensions team have been able to continue delivering a full range of services to stakeholders. Economically, the Fund has benefitted from the recovery in asset valuations prompted by the proof of vaccine efficacy.

During the year, the Fund delivered an investment return of 22.3%, marginally ahead of its benchmark return of 21.7%. The Fund remains in a healthy condition and is also cash flow positive, so is capable of paying member benefits as they fall due out of current income.

At 31 March 2021, the Fund had assets of £2.8 billion (£2.3 billion at 31 March 2020) and the actuary estimates an increase in funding level to 106% based on rolled forward figures and assumptions adopted at the recently completed valuation. A strategic investment review is currently underway following the completion of the valuation work to ensure the Fund charts a prudent and appropriate investment course in line with the assumptions set out in the valuation and Funding Strategy Statement.

The remainder of this commentary looks at the Fund's business model, the key themes feeding into 2020/21, and management's observations on the overall performance and outlook for the Fund.

Business Model

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

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

The Fund is managed and administered from the Municipal Buildings in Falkirk. Plans are at an advanced stage to migrate certain Council services, including the Pensions team, to premises in the Central Business Park, Larbert. This is expected to happen in late summer 2021. As at present, staff will be home and office based in a blended working arrangement.

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

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

- Membership and benefits administration

- Investment
- Governance and risk management
- Funding
- Accounting
- Communications

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

Investment of the Fund's assets is undertaken by a range of specialist managers. Mandates are overseen by the Pensions Team. Investment strategy is set by the Pensions Committee. Implementation of the strategy is delegated to the Chief Finance Officer 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 48.

Governance and risk management is the responsibility of the Pensions Committee to whom Fund business has been delegated by Falkirk Council. The Committee is supported by the Pension Board to ensure that decisions are made in line with the rules of the Scheme and in accordance with good practice. More information on Fund Governance can be found on page 19. Information on Risk Management can be found on page 73.

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

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

Communications are delivered via
- the Pension Fund website www.falkirkpensionfund.org;
- Annual member newsletter / benefit statement
- Pensioner payslip messaging

Covid-19
The Covid-19 pandemic which erupted in March 2020 has had a major effect on the Fund, impacting a range of financial, governance and operational activities. Given the extent of disruption, the Fund's business contingency arrangements were activated and a standalone Covid-19 risk item added to the Fund's risk register.

Initially, home working was the norm for the Pensions team. Due to key systems being web based, a good level of service to stakeholders was maintained with no interruption to the payment of pensions, retirement lump sums and death grants.

During the year, the Pensions team were periodically able to return to their normal workplace to carry out essential duties. Attendance was on strict rota basis and with safe working protocols in place. The ability to work flexibly gradually improved with all staff being equipped with laptops and the corporate roll out of MS Office 365.

The Covid experience has given further impetus to the Council's "Anytime, Anywhere" mobile and flexible working strategy. This is being taken forward more permanently in 2021 with a re-locating of Council services to premises in Larbert with space being allocated to teams on the basis that a significant level of home working will continue. In anticipation of this, management are taking forward plans to digitise remaining paper to reduce the team's space requirements and improve data security.

One tangible impact of the pandemic was the fact that both the March and June 2020 Pensions Committee/Board meetings had to be cancelled due to the logistics of convening online meetings. Meetings were recommenced in August and have continued online in accordance with the normal schedule.

Turning to Fund investments, Covid has clearly played a huge part in the volatility experienced by financial markets during the year. Generally, though, vaccine efficacy and government stimulus have allowed uncertainties to be shrugged off and markets finished the year positively as compared with last year. As noted in the above summary, this has led to a healthy funding position for the Fund at March 2021.

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

Governance

After an initial period of disruption following the outbreak of the pandemic, Committee and Board meetings reconvened on 13 August, 2020. All meetings were quorate and discussed a full diet of business, including Fund Investments, Funding Strategy, the Annual Report and Accounts, Annual Audit Reports and the Valuation Report.

At year end, all seats on the Committee and Board had been filled, including a vacancy that had existed on the Trade Union side of the Board.

Committee and Board were indebted to Simon Hunt of Scottish Autism who kindly agreed to continue as Chair of the Board for a further year in view of the disruption caused by the pandemic.

Full details of the Fund's Governance arrangements can be found on Page 19 and in the Governance Compliance Statement.

Risk
The extensive risks from Covid – e.g., health and safety, financial, operational - resulted in the Pensions Committee agreeing to update the risk register with a Covid-19 specific risk item. The level of risk was downgraded towards the end of 2020/21. This reflected Covid risks being successfully managed through mitigations such as remote working, online dialogue with advisers, the re-introduction of Committee and Board meetings, and the Council's own control mechanisms. Beyond Covid-19, some of the highest-ranking risks at year end were from the effects of climate change, succession planning and cyber security.

Recognising the risks from climate change, the Fund adopted a Statement of Responsible Investment Principles (SRIP) during 2020/21. This commits the Fund to certain actions, including and potential divestment and reporting carbon intensity. Climate risk has also been identified as a significant factor in the current investment strategy review.

Regarding succession planning, a new Pensions Manager has been appointed from 1 January 2021 and the former Pensions Manager, having taken flexible retirement, continues to be part of the team working in a part time capacity.

Cyber security was thrown into sharp focus following a severe attack on a Fund employer, severely hampering their ability to function normally. The Pensions team have been reminded of their obligations in keeping systems and data safe.

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

Investment Arrangements
Notwithstanding the adoption of the SRIP, no changes were made to Fund investment strategy during the year. A number of modest changes were made around strategic implementation including commitments to the Pictet Global Environmental Opportunities Fund and the Legal and General 6A Corporate Bond. Several capital calls were met, adding to positions in Private Debt and Infrastructure. LPFI Ltd – the regulated investment arm of Lothian Pension Fund – assumed management of the Fund's index linked gilts mandate.

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

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

on this closed on 23 October 2020 and is currently under consideration by the Scottish Public Pensions Agency (SPPA).

It is likely that the method of redress will be to “level up” protections and extend the “underpin” – the offending provision - to a broader range of members. This is likely to be applied retrospectively to April 2015 and will have cost and administrative ramifications. A report commissioned from Hymans Robertson indicated that a potential 9,750 Falkirk member could be impacted if the likely remedy was adopted requiring an additional 800 hours of resource to process.

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

Cost Cap

The Cost Cap is the mechanism through which risks around the cost of the Scheme are shared between employer and member. It acts as a safety valve so that, in the event of the Scheme becoming significantly more (or less) expensive than expected, member contributions or benefits flexed. Actuarial analysis suggests that the Scheme is less expensive than expected which ordinarily should lead to a lower member contribution rate or improved benefits. Progress in taking this forward awaits completion of the 2017 Scottish Cost Cap Valuation by the Government Actuary’s Department. This has been delayed by “McCloud”, as the costs of “levelling up” will, subject to legal challenge, need to be factored into the costings. At the time of writing, indications are that the cost cap limit has been breached, but that once McCloud is taken into account, the cap has not been breached. It is expected a formal announcement will be made by the Government Actuary and Scottish Ministers later in 2020/21.

Relationship with Lothian and Fife Pension Funds

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

To formalise the relationship, the Fund has entered into a shared service agreement with LPFI Limited, the regulated vehicle of Lothian Pension Fund. This

provides the Fund with investment arrangement and advisory services and is the key to allowing the Fund to access investments in private markets. The Fund has an investment management agreement with LPFI authorising them to manage a gilts mandate. It is anticipated that, subject to due diligence, other mandates will be managed by LPFI.

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

Whilst the current arrangements relate mainly to investment matters, the Fund continues to explore the possibilities of collaboration in other areas, such as scheme administration.

Review of Scheme Structure

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

Consultation responses were considered by the SAB during 2019 and a consultant's report was also considered. A proposal to undertake further analytical work was agreed with the Scottish Ministers, however efforts to take this forward have been delayed by the pandemic and procurement obligations. A Strategic Programme Manager has been appointed in 2021 to carry out the next phase of the project which will not report to SAB until much later this year or 2022. More information about the SAB Review can be found at SAB-Bulletin-May-2021.pdf (lgpsab.scot) and in the most recent SAB Annual Report at Annual Report | LGPSAB.

Notwithstanding the ongoing review, Falkirk remain of the view that a merged structure is an option which should be explored. During 2020/21, management has been working with the Lothian Pension Fund to better understand the challenges of fund merger. Work with an appointed consultant has considered:

- alternative governance models
- alignment of administration
- funding and actuarial matters
- investment strategies
- third party provider contracts

Consent to undertake work on this initiative was obtained from the Committee and both Committee and Board have been updated on the work undertaken, with a

detailed briefing being given by the appointed consultant. This is an area of continuing work in progress.

Scheme Changes

No changes were made to the rules of the Scheme during 2020/21. However, following on from judgements in the Walker and Goodwin cases, SPPA indicated that Funds should rely on Section 61 of the Equalities Act to pay equal benefits to the survivors of same and opposite relationships, subject to the entitlement to the survivor's pension arising on or after 5 December 2005. It is understood scheme regulations will be amended shortly to resolve any conflict with the primary legislation.

SPPA also issued a Ministerial Direction making Lothian Pension Fund the Administering Authority for all VisitScotland members, including active, deferred and pensioner members. This initiative, undertaken to streamline administration for VisitScotland and involving all Scottish LGPS Funds, was project managed by Hymans Robertson and resulted in a bulk transfer payment of around £8.2m being made from Falkirk to Lothian, as well as the transfer of pensions and payroll records. Scheme members affected received various communications regarding their change of Fund and the project was successfully concluded in March 2021.

GMP Reconciliation

The exercise to reconcile HM Revenue's Guaranteed Minimum Pension data with that of the Fund has continued during 2020/21, albeit more slowly than anticipated due to the pandemic. The Local Government Pension Scheme (Increased Pension Entitlement) (Scotland) Regulations 2019 means that any GMP-related pension overpayments will not be recovered. A project plan to identify and calculate over and underpayments has been agreed with providers and will be progressed during 2021/22. More information on this topic can be found in Note 24.

Data Quality Standards

The Regulator requires that Funds take a pro-active approach to improving data quality. Accordingly, each year the Fund undertakes an annual data quality exercise in which Fund data is assessed against approximately 100 individual tests.

The 2020 exercise disclosed that the Fund had a Common data score of 99.2% (99.0% in 2019/20) and a Scheme Specific data score of 94.7% (94.2% in 2019/20). The percentage of member records that did not fail any of the tests deemed to be in the core test list of the Pensions Regulator (TPR) was 99.4% for common data (98.3% in 2019/20) and 87.5% for scheme specific data (85.6% in 2019/20).

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

The Pensions Team are benefitting from the Fund having joined the LGPS National Database of members which is a facility designed to prevent duplication of benefit payments. This has also enabled the Fund to participate in the DWP's Tell Us Once initiative which simplifies the process of notifying pensioner deaths to relevant agencies.

Remuneration Report

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

Outlook for 2021/22

Thanks to modern science developing effective Covid-19 vaccines at breakneck speed, the prospects for 2021/22 are much improved. Hopefully, this will translate into a healthier and happier year for Fund stakeholders.

At the time of writing, businesses are re-opening across major economies; interest rates remain low; and fiscal stimulus remains in place. This should help maintain the global economic recovery which was kickstarted during the year and is expected to be positive for Fund returns - especially equities which form a major part of the Fund's investment strategy.

There are however potential headwinds to the continuing recovery, including:

- New Covid-19 variants
- Economic recovery already priced into asset valuations
- Inflation driven by pent up demand from consumers (i.e., forced savers)
- Rising interest rates
- Geo-political tensions

The pandemic has seen an acceleration in trends such as home working, digitisation and decarbonisation. To ensure the Fund's investment strategy remains relevant, a strategic review is underway and due for completion in summer 2021. This will draw on the results of the triennial valuation. The review is being undertaken with input from investment consultants from Hymans Robertson and from the Joint Investment Strategy Panel. A recommendation will be made to the June 2021 Pensions Committee.

An exciting new initiative for the Fund is the forthcoming appointment of a dedicated engagement specialist to provide expert challenge to investee companies on a range of ESG (Environmental Social and Governance) topics. As

well as executive pay, tax transparency, supply chains and diversity, a major focus will be on climate risk and the ability of companies to reduce emissions yet stay successful. Likewise, the Pensions Team look forward to working with newly appointed asset managers, Pictet and their environmentally themed fund, to which a commitment of £150m has been made.

In terms of operations on the ground, the Pensions Team continues to focus on meeting service delivery obligations delivered either through home working or in a safe communal working environment. A significant project will see the team decant to new Council premises in Block 4 of Central Park, Larbert. The Council wide initiative is designed to improve staff working conditions whilst promoting home working and a greater reliance on cloud computing. In preparation for the move, a major project of digitising the Fund's outstanding paper records began in Spring 2021. Other projects earmarked for later this year and next and designed to advance the Fund's digital footprint include:

- Further roll out of i-Connect (electronic transmission of member data)
- E-payslip solution for Pensioners
- Members Self Service

These will be undertaken in tandem with the various regulatory matters that are remain in scope - GMP Reconciliation, the McCloud and Goodwin judgements.

The Covid-19 pandemic has meant that limited progress has been made in relation to the national review of the structure of the LGPS in Scotland. Against that backdrop and the need to future proof the Fund, management expect there to be a continuation of close dialogue with the Lothian Pension Fund in relation to possible merger of the two Funds.

A number of challenges lie ahead for the Fund and the Pensions Team. Amongst these, the most immediate and significant will be to ensure a smooth transition to the new work location. Despite these challenges on the horizon, the Fund remains in a healthy financial state and with a stable and experienced team in place to take forward a meaningful agenda for improvement.

Chair of the Pensions Committee	**Chief Executive of Falkirk Council**	**Chief Finance Officer of Falkirk Council**
Date: 23/09/2021	**Date:** 23/09/2021	**Date:** 23/09/2021

Fund Governance

Overview

Falkirk Council is the Administering Authority of the Falkirk Council Pension Fund (the "Fund") and is responsible for ensuring that pension fund business is conducted 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 various operational and investment activities delegated to the Chief Finance Officer. Fund business is overseen by a Pension Board set up to comply with the requirements of the Public Service Pensions Act 2013.

The governance arrangements for the Fund are explained in the Governance Policy which contains the statutory Governance Compliance Statement. The Annual Governance Statement makes reference to the governance mechanisms and internal controls in place during the accounting year. Governance arrangements are reviewed periodically to ensure they remain relevant and effective.

<u>Annual Governance Statement</u>

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

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

<u>Governance Compliance Statement</u>

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.

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 2020/21, the Committee held six meetings, all of which were joint meetings with the Pension Board.

Committee Members	
Adanna McCue (Chair of Pensions Committee)	Elected Member (Falkirk Council)
Jim Blackwood	Elected Member (Falkirk Council)
William Buchanan	Elected Member (Falkirk Council)
Niall Coleman	Elected Member (Falkirk Council)
John Patrick	Elected Member (Falkirk Council)
Pat Reid	Elected Member (Falkirk Council)
Donald Balsillie	Employer Representative (Clackmannanshire Council)
Andy Douglas	Trade Union Representative (Unison)
Douglas Macnaughtan	Pensioner Representative

The Committee's key responsibilities are:

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

The Committee is supported at its meetings by officers and professional advisers. External Auditors are invariably in attendance at Committee meetings. Attendance is recorded in the meeting Minutes. During 2020/21, all meetings have been conducted virtually as a result of the restrictions imposed by the Covid-19 pandemic.

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

Pension Board

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

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

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

The Board Members as at 31 March 2021 were as follows:

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

New Appointment in 2020/21
Mr Raymond Smith was appointed on 18 February 2021.

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

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

During 2020/21, six meetings were scheduled. These consisted of the standard quarterly meetings plus two ad hoc meetings to consider i) the Annual Report and Accounts 2019/20 and ii) the future collaborative arrangements with Lothian Pension Fund.

The quarterly meeting originally scheduled for 25 June, 2020 was delayed until to 13 August, 2020 due to the logistical challenges faced by the Council in convening formal meetings on a virtual basis.

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

Meetings during 2020/21

Pensions Committee	**Appointment Date**	**13 Aug 2020**	**24 Sep 2020**	**22 Oct 2020**	**10 Dec 2020**	**18 Mar 2021**	**22 Mar 2021**
A. McCue	04/05/2017	✓	✓	✓	✓	✓	✓
D. Balsillie**	04/05/2017	✓	x	x	x	x	x
J. Blackwood	03/05/2012	x	✓	✓	✓	✓	✓
W. Buchanan	04/05/2017	x	x	x	v	x	x
N. Coleman	15/02/2018	✓	✓	✓	✓	✓	✓
A.Douglas	05/09/2013	✓	✓	✓	✓	✓	✓
J. Patrick	08/08/2000	✓	✓	✓	✓	✓	✓
P. Reid	04/05/2017	✓	✓	✓	✓	✓	✓
D. Mcnaughtan*	02/09/2020	x	x	x	x	x	x
Pension Board							
S.Hunt	14/09/2016	✓	✓	x	✓	✓	✓
G. Murphy	05/03/2020	✓	✓	✓	✓	✓	✓
E. Morrison	26/06/2015	✓	✓	x	✓	✓	✓
J. Welsh	26/06/2015	✓	✓	x	✓	✓	✓
T. Caleary	17/02/2020	✓	✓	✓	✓	✓	✓
D. Wilson	17/02/2020	✓	✓	✓	✓	x	x
S. Harrower	26/06/2015	✓	✓	x	✓	✓	✓
R. Smith	18/02/2021	n/a	n/a	n/a	n/a	✓	✓

*Mr Macnaughtan did not attend Committee meetings during 2020/21 due to issues with online access.

**Cllr Balsillie did not attend a number of Committee meetings during 2020/21 due to conflicts with Clackmannanshire Council Committee meetings.

Training for those with Governance Responsibilities

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

Training is normally provided through a variety of means, including:

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

- knowledge assessment questionnaires

During 2020/21, by virtue of the Covid-19 restrictions training events were mainly confined to the inputs provided by specialists at the formal Committee and Board meetings. In view of the 2020 Valuation being undertaken, there was a focus on actuarial and funding issues, whilst later in the fund year, a session was arranged to consider the alternative governance structures that could be deployed should structural change be mandated. Various members of the Committee and Board attended the following online webinars -

- General Committee and Board training hosted by the Scottish Pensions Officers Group
- Investment in post-pandemic landscape hosted by LGC
- Cyber risk webinar hosted by AON

Senior officers continued to attend online events covering matters such as Accounting Practices, Responsible Investment and Data Quality.

Training arrangements for 2021/22 are continuing to focus on online events and other training material that can be accessed via the internet.

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 2020/21, the Fund responded to 32 Freedom of Information requests (24 in 19/20), the majority of which related to the composition of the Fund's assets.

Documentation

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

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

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

Funding Strategy Update

Overview

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

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

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

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

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

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

- the money each employer needed to hold in order to pay benefits ("funding target")
- the time period over which full funding is to be targeted for employers ("time horizon")

- the probability of the funding target being met by the end of the time horizon taking account of the nature of the organisation.

In broad terms, the funding strategy requires that there should be at least a 70% chance of an employer being fully funded or better at the end of their time horizon. A review of investment strategy is being conducted in early 2021/22 to ensure that the target return and asset mix is consistent with the Fund having the required chance of achieving funding success in the long term.

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

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

The Funding Strategy is set with the intention of delivering a successful outcome for the Fund over the longer term. The strategy is designed to be sufficiently robust to withstand short term market swings. The issues of Covid-19 and volatility and issues flowing from that - inflation / interest rates - has been considered more specifically in the Investment Strategy Review which took place post recently.

Actuarial Update

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

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

A separate estimate of the funding position is undertaken each year by the actuary. This is based on prescribed assumptions which comply with IAS26 accounting requirements and is not relevant to the Fund's long term funding strategy. Details of the IAS 26 valuation at 31 March 2021 can be found in Note 19.

Funding Position
The results of the 2020 valuation disclosed a funding level of 94%, meaning that the Fund had 94% of the monies needed to pay benefits that members had accumulated at 31 March 2020. This represented a small improvement on the 2017 funding position. As the table below shows, a more recent funding estimate as at 31 March 2021 indicates that the position has improved from 2020. Whilst an estimated funding level of 106% is very positive, it should be stressed that the funding level is a very volatile metric and that what is important to the Fund is having a strategy which gives it a strong probability of being able to meet its long-term funding commitments. The Fund's ongoing positive cashflow position of c.£14m per annum (see page 33) is one indicator of this capability.

	2017 Valuation	**2020 Valuation**	**2021 Estimate**
Assets	£2,219m	**£2,329m**	**£2,833m**
Liabilities	£2,403m	**£2,481m**	**£2,673m**
Funding Surplus / (Deficit)	(£184m)	**(£152m)**	**£160m**
Funding Level	92%	**94%**	**106%**

For avoidance of doubt, the estimated 2021 Fund liability of £2.673m does not appear in the financial statements. This is because the number includes an estimate of future payments to be made from the Fund, whereas the financial

statements only take account of the Fund's obligations to pay pensions as at 31 March 2021.

Funding Assumptions
In estimating the March 2021 funding position, the actuary has made judgements about both assets and liabilities.

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

Further relevant assumptions made are:

	2020 Valuation	2021 Estimate
Assumed future investment return (based on 75% likelihood of success)	3.2%	3.6%
Salary increase assumption	2.3%	3.1%
Pension increase assumption	1.7%	2.5%

The improved economic environment has led to best estimates of investment returns being revised upwards.

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

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

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

Changes since 2020 valuation
The 2020 valuation coincided with a period of extreme volatility and uncertainty in financial markets. With a more positive outlook coming from the successful vaccination programme and strong Government stimulus, markets have rebounded to levels observed before the pandemic struck.

The rebound is reflected in the estimated funding level of 106% at 31 March 2021. However, most market commentators agree that there is still considerable uncertainty around the future economic impact (both in the short- and long-term) of the pandemic and, as such, readers should view the funding level – a volatile metric at the best of times - with caution and in the context of the wider economic environment.

The change in funding position from a small deficit at 31 March 2020 to an estimated small surplus at 31 March 2021 is mainly derived from the improvement in asset values. The actuary has indicated that the likelihood of the Fund having sufficient assets to meet benefit payments has improved from 70% at the 2020 valuation to 78% at March 2021, and that the level of investment return required to achieve the funding objective has fallen by 0.3% to 3.3% p.a. The impact of the improved asset position has been slightly tempered by an increase in the cost of benefit provision due mainly to higher long term inflation expectations.

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

Financial Performance

Overview
This section reports primarily on the Fund's income, expenditure, and cash flows during 2020/21.

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

A summary of the actual and budgeted expenditure for 2020/21, together with the budget for 2021/22, is set out below. More information about Fund costs is given in Note 11 and 11a.

	Budget 20/21	**Actuals 20/21**	**Variance 20/21**	**Budget 21/22**
Benefits administration	£	£	£	£
Employee expenses	580,920	515,414	(65,506)	**594,960**
IT Costs	224,290	254,241	29,951	**307,010**
Projects	50,000	61,620	11,620	**165,000**
Other	122,690	128,871	6,181	**132,790**
Benefits administration Total	**977,900**	**960,146**	**(17,754)**	**1,199,760**
Oversight and governance costs				
Employee expenses	151,410	127,329	(24,081)	**147,630**
Investment advice (inc. external)	307,000	230,755	(76,245)	**301,000**
Infrastructure deals & property advice	344,000	279,107	(64,893)	**386,000**
Actuarial fees	120,000	154,932	34,932	**120,000**
Engagement services	80,000	0	(80,000)	**80,000**
Tax advice and legal fees	76,470	43,174	(33,296)	**70,000**
Performance measurement	75,000	82,419	7,419	**85,000**
Other	114,330	116,842	2,512	**119,080**
Oversight & governance Total	**1,268,210**	**1,034,558**	**(233,652)**	**1,308,710**
Investment management costs				
Managers fees	5,080,500	4,519,182	(561,318)	5,137,500
Custodian costs	125,000	86,258	(38,742)	125,000
Aborted deal costs	75,000	0	(75,000)	75,000

Other	5,000	10,974	5,974	5,000
Investment management Total	**5,285,500**	**4,616,414**	**(669,086)**	**5,342,500**
Contingency				**125,000**
Pension Fund Total	**7,531,610**	**6,611,118**	**(920,492)**	**7,975,970**

The main variances between the budgeted and actual amounts for 2020/21 related to:

Cost category	Under/Over spend	Comments
Benefits administration	Underspend	Savings from staffing changes were offset by additional IT costs and projects such as GMP and first phase of scanning
Oversight and governance	Underspend	Savings from delay in procurement of Engagement specialist and lower than budgeted recharges from Lothian Pension Fund
Investment management	Underspend	Savings mainly from fees charged in Q2 2020, as market valuations had not fully recovered yet at that point from the pandemic

The budget for 2021/22 represents an increase of £444k on the 2020/21 budget. The main changes are:

Cost category	Increase or Decrease	Comments
Benefits administration	Increase	Provision for additional projects such (records scanning, GMP, McCloud) and IT enhancements (i-Connect and Members Self Service)
Oversight and governance	Increase	Inflationary increase to recharges from Lothian Pension Fund
Investment management	Increase	Increase in assets under management
Contingency	Increase	This is a contingency for work that may be required in connection with a Fund merger or re-structuring

Contributions made to the Fund in 2020/21

During 2020/21, employees and employers paid the following contributions:

Employer Name	Employees in £'000	Employers in £'000
Central Scotland Joint Valuation Board	94	321
Clackmannanshire Council	2,454	9,195
Falkirk Council	6,799	26,128
Forth Valley College	516	1,887
Police Scotland (ex Central)	207	851
Scottish Fire & Rescue	50	186
Scottish Childrens' Reporter Administration	964	3,097
Police Scotland (ex SPSA)	192	617
SEPA	3,083	9,045
Stirling Council	4,337	16,249
VisitScotland	7	128
Total Scheduled Bodies	**18,703**	**67,704**
Active Stirling Trust	181	621
Alsorts	0	52
Amey	6	38
Ballikinrain School	38	144
Colleges Scotland	25	139
Cowane's Hospital	4	22
Cromwell European Mgmt Services Ltd	3	0
Dollar Academy Trust	131	430
Falkirk Community Trust	471	1,764
Forth & Oban Ltd (Falkirk schools)	3	10
Forth & Oban Ltd (Stirling schools)	21	74
Haven Products Limited	3	17
Scottish Autism	524	2,610
Smith Art Gallery	9	41
Snowdon School Ltd	24	110
Stirling District Tourism Ltd	3	3
Strathcarron Hospice	340	1,248
thinkWhere	26	87
Water Industry Commission	118	406
Total Admitted Bodies	**1,929**	**7,815**
Fund total (see Note 7)	**20,632**	**75,519**

The total pensionable pay of members on which contributions were levied was £334m (£318m for 2019/20). This means that average member contributions were 6.1% of pay (6.1% in 2019/20) and average employer contributions (exc. deficit repayment) were 22.2% (21.9% for 2019/20). The reasons behind the rise in employee and employer contributions is covered in the cashflow section below.

During the year, there were 6 instances of employers failing to remit contributions by the due date (7 in 2019/20). None of these circumstances were deemed material and no interest for late payment was charged due to the nature of sums involved. During 2020/21 3 smaller fund employers asked for holiday contribution which was granted. All amounts due were paid by 31 March 2021, as agreed when deferments were granted.

Cashflow

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

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

	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Inflows Contributions and transfers from other pension funds	87,401	83,880	92,754	98,405	98,558
Outflows Benefits and payments to and on account of leavers	68,991	74,918	78,461	84,381	92,853
Net cash flow	**18,410**	**8,962**	**14,293**	**14,024**	**5,705**

The analysis of flows in and out of the Fund shows that it remains in positive cash flow territory. For 2020/21, the gap between what the Fund took in and paid out from its dealings with members increased by 60%, but this was due to the VisitScotland transfer to Lothian Pension Fund. If the effects of the transfer were taken out, the net cash flow would be broadly in line with the previous two years.

Contributions into the Fund increased due to annual salary increases and higher employer rates being levied than in 19/20 as part of the phased increase in rates certified at the 2017 valuation. The increase in benefit payments reflected the higher aggregate number of pensioners receiving benefits. Despite the positive net cash flow position, the longer-term trend will inevitably be towards a cash neutral or negative position as the ratio of deferred and pensioner members to active members increases.

Pension Payments and the National Fraud Initiative

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

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

Conclusions

Other than the increase in aggregate employer contributions and the bulk transfer payment to Lothian in respect of VisitScotland member there were no material change in cashflows from the previous year. Fund expenditure was lower than budgeted, largely due invoiced investment management fees being lower than anticipated. Despite the challenges of the pandemic, all employers paid their certified pension contributions by 31 March 2021.

Scheme Administration

Overview
This Section reports on the administrative activities undertaken by the Pensions Team during 2020/21. It includes:

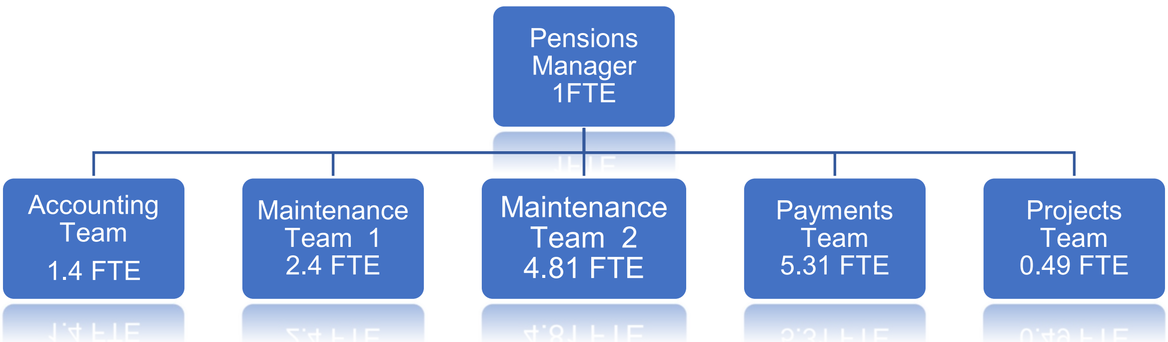
- Key Performance Indicators 2020/21
- How the Administration function is organised
- Value for Money Statement
- Membership Information
- Administration Activity and Performance
- Communications
- Outlook for 2021/22

Key Performance Indicators 2020/201
The aim is to provide an efficient and cost-effective administration service that meets stakeholders' needs. Performance is measured through a series of indicators:

Key Performance indicators 2020/21	Target	Actuals
Audit of Annual Report and Accounts 2019/20	Unqualified	Unqualified
Benefit Statements issued by 31 August 2020	100%	97%
Contributions received by 19 days of month end	100%	98%
Retirement lump sums paid within 15 days	90%	96%
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

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

Staffing
The team has 18.95 budgeted full-time equivalent posts (including vacancies) and is headed by the Pensions Manager. In addition to benefits administration, staff members undertake governance, accounting, and investment related activities. As of 31 March 2021, the Team was made up as follows:



In December 2020, the incumbent Pension Manager retired, and after a recruitment exercise, the post was filled by the Pensions Officer from the Projects Team. The former Pensions Manager has remained part of the team in the role of a part time Pensions Support Assistant. Recruitment for the vacant Pensions Officer role was undertaken in April 2021.

Record Maintenance

Membership data and scheme records are maintained by the internal team using the industry standard computerised pensions administration system (Altair) which is used by all LGPS Funds in Scotland. The system is reviewed regularly by Aquila Heywood, the software vendor, and upgrades are provided regularly to ensure system compliance and improvement.

All staff are required to complete online Data Protection training annually as part of the Fund's commitment to ensuring that member data is held securely, and that confidentiality is respected. No data security incidents took place during 2020/21, however one Fund employer suffered a severe cyber-attack which impacted their normal business arrangements.

Systems

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

All staff have access to up-to-date computer hardware and operating systems with standard data security features. Several new laptops were issued during 2020/21 to staff to facilitate greater home working with all machines being upgraded to run Office 365. This has been essential to maintaining inter sectional communications and service delivery during the Covid-19 lockdown restrictions.

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

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

The Fund has an ongoing project to enable constituent employers to make monthly electronic data submissions using a middleware application known as i-Connect. This is to improve the timeliness, completeness and quality of data. By 31 March 2021, most small and medium sized employers in the Fund were live on i-Connect, together with several larger employers. The final phase of the project essentially involves a small number of medium sized employers and Falkirk and Stirling Council going live and this is expected to be completed during 2021/22 or early 2022/23.

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

The Fund strives to deliver value for money by monitoring:

- costs against budget (see page 30)
- year on year total and unit costs (see table below)
- performance statistics (see page 39)
- success in completing key activities (see page 43)
- investment cost through benchmarking (see page 38)

The Fund's total unit costs per member in 2020/21, split across the cost categories of investment management, administration and oversight and governance (see Note 11) were as follows:

	2016/17	2017/18	2018/19	2019/20	2020/21
Investment management expenses					
Total cost in (£000)	9,791	10,053	11,290	14,546*	17,148*
Total membership nos	32,138	33,560	34,635	35,396	35,929
Sub cost per member £	**304.65**	**299.55**	**325.97**	**410.95**	**477.27**
Administration costs					
Total cost in (£000)	582	749	776	919	960
Total membership nos.	32,138	33,560	34,635	35,396	35,929
Sub cost per member £	**18.11**	**22.32**	**22.41**	**25.96**	**26.72**
Oversight and governance costs					
Total cost in (£000)	558	503	641	939	1,035
Total membership nos.	32,138	33,560	34,635	35,396	35,929
Sub cost per member £	**17.36**	**14.99**	**18.51**	**26.53**	**28.81**
Total cost per member £	**340.12**	**336.86**	**366.89**	**463.44**	**532.80**

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

Comment on Costs
Administration costs were within budget but increased marginally from 2019/20 levels due to additional expenditure on projects such as GMP reconciliation and the first phase of record scanning. The larger increases in administration costs in 2017/18 and 2019/20 were mainly the result of increases in the staffing establishment.

Oversight and governance costs were within budget but increased from 2019/20 levels due to the collaborative arrangements with Lothian Pension Fund being expanded to include deal sourcing for Private Debt and the advice and support in relation to the Property mandate covering a full year for the first time. The longer-term trend of increases reflects the switch from higher fees through fund of fund structures (e.g. infrastructure) to sourcing investments through Lothian which means lower investment fees but higher oversight and governance fees payable to Lothian for their research and due diligence work.

Investment management costs have risen by £2.6m from 2019/20 level. In line with last year, the Fund has, where possible, disclosed the investment management costs reported by managers through the Cost Transparency Initiative (CTI). These costs are different to the manager fees for which the Fund is invoiced and include costs charged to capital by managers.

The main drivers behind the increase are performance fees from Private Equity and Infrastructure investments. Performance fees are only realised at the end of the investment period, but they are disclosed in the accounts on incremental accrual basis. These fees are linked to the performance of the investments and can move up and down over the full investment period. The level of fees form part of due diligence analysis prior to investment. In 2020/21, some of the Infrastructure and Private Equity funds reached trigger points for these fees. Further explanation is provided in Note 11a.

LGPS Code of Transparency

The LGPS Code of Transparency is a project that has been evolving for the past few years with the aim to provide Funds with comprehensive data on investment costs including fees that have been both invoiced and deducted from capital. It builds on work undertaken by the Investment Association, the Pensions and Lifetime Savings Association and the England and Wales LGPS Scheme Advisory Board. Under the Code, managers are providing cost information in a standardised format using templates established under the Cost Transparency Initiative (CTI)) and uploading these to a secure portal.

Participation in the Code is voluntary; however, the expectation is that managers will participate. Participation is expected to be a condition of any new manager appointments. For 2020/21, the Fund has been able to use CTI templates to collect cost data about its pooled investments (e.g. Baillie Gifford's Diversified Growth Fund and Legal and General's Passive Equity Funds).

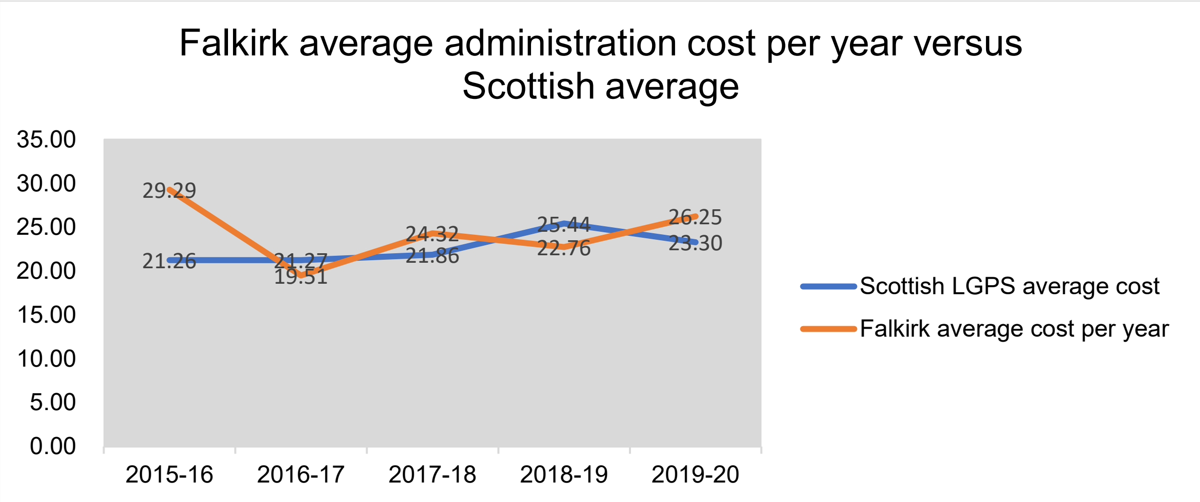
Investment Cost Benchmarking

In 2020/21, the Fund again participated in a cost benchmarking exercise undertaken by specialist firm CEM. CEM is an independent global benchmarking company with a database of 303 global pension funds, representing $7.4 trillion in assets. Participation allows Fund investment costs to be compared with a range of LGPS and non-LGPS peer comparators. The work is done one year in arrears, so the information reported below relates to the Fund's investment cost data for 2019/20. The Fund returns were compared with CEM LGPS universe comprising 34 funds with £178bn assets.

The results showed Fund's costs as 69 basis points of invested assets, which was above the average benchmark cost of 62.5 basis points for similarly sized funds. However, costs had fallen from 73.6bps in 2014/15 to 69bps in 2019/20 at a time of rising asset valuations. The 6-year net total return of 6% was in line with CEM LGPS median of 6.1%

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

Administration Cost Benchmarking
The chart below shows the Fund's average administration costs per year in comparison with overall Scottish LGPS average. The Fund's costs of £26.25 during 2019/20 are close to the Scottish average and therefore not untypical.



Source: CIPFA Scottish Directors of Finance benchmarking

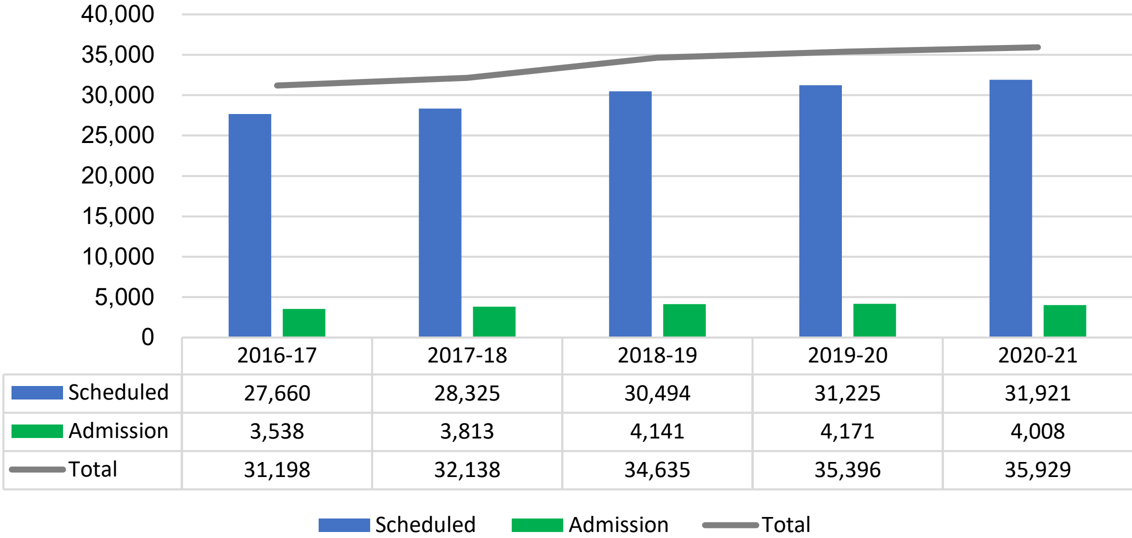
The Fund recorded its highest costs in 2015-16 due to the implementation of a new pensions administration system in the wake of the 2015 LGPS reforms. More recent increases in costs have been related to staff recruitment in order to improve resilience and address succession planning risk. For the CIPFA exercise, costs are calculated on a different basis than costs shown in the Accounts on page 37.

The CIPFA Scottish Directors of Finance Performance Indicators Report 2019/20 (n.b. the most recent available) reveals that similarly sized Scottish LGPS Funds have an administration cost on average of around £30 per member.

Membership Information

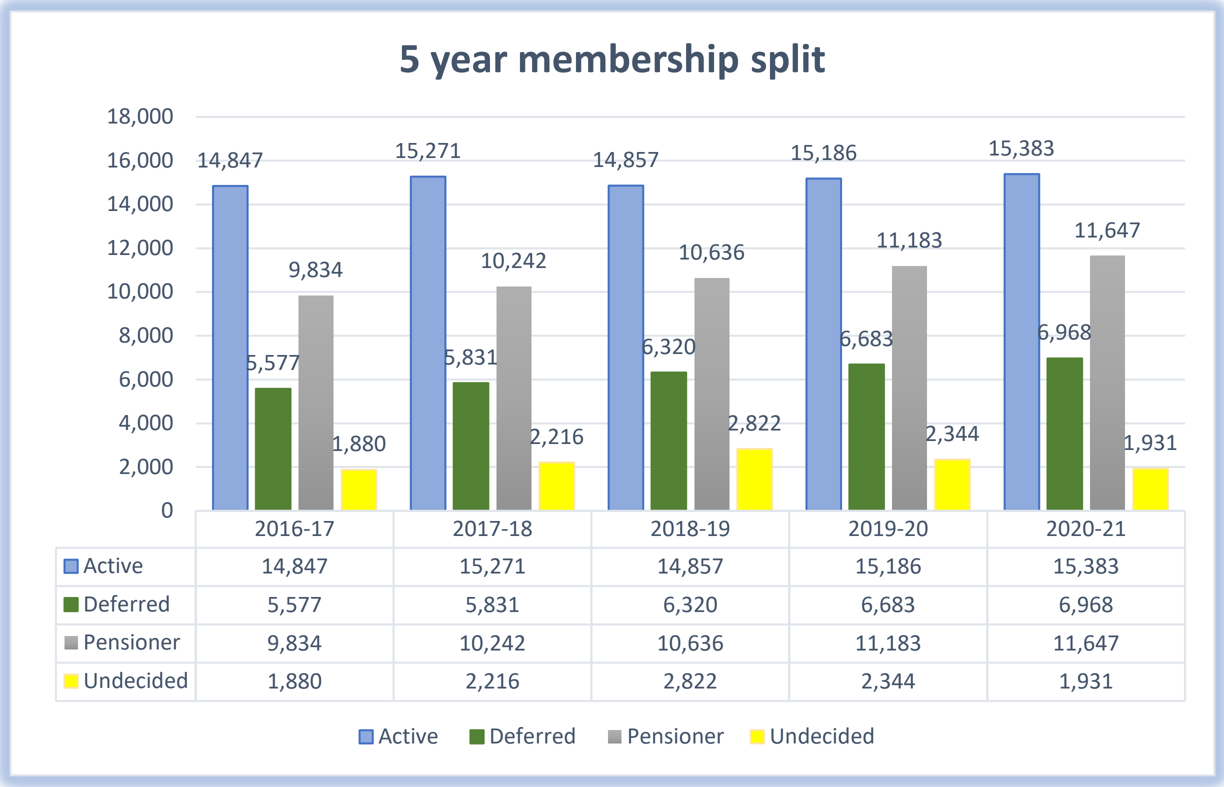
Fund membership numbers change as individuals join or leave the Scheme as part of normal staffing turnover. From time to time, more significant membership movements can occur from factors such as recruitment freezes, workforce reshaping, staff transfers, and Government initiatives (e.g. auto enrolment).

The first chart in this Section shows how total Fund membership (active, deferred, pensioner and undecided members) has changed over the past 5 years split between Scheduled and Admission Bodies. It shows that total membership over the past 4 years has increased at an average of around 3.6% p.a. It also indicates that 89% of scheme members in the Fund work for Scheduled Bodies.



	2016-17	2017-18	2018-19	2019-20	2020-21
Scheduled	27,660	28,325	30,494	31,225	31,921
Admission	3,538	3,813	4,141	4,171	4,008
Total	31,198	32,138	34,635	35,396	35,929

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

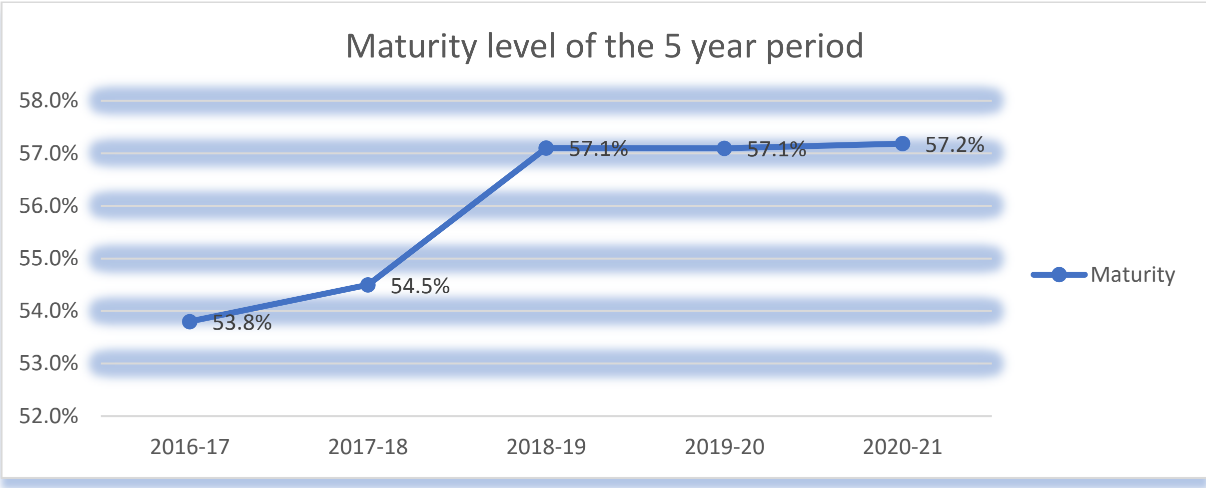


	2016-17	2017-18	2018-19	2019-20	2020-21
Active	14,847	15,271	14,857	15,186	15,383
Deferred	5,577	5,831	6,320	6,683	6,968
Pensioner	9,834	10,242	10,636	11,183	11,647
Undecided	1,880	2,216	2,822	2,344	1,931

The chart shows that as at 31 March 2021 active, deferred and pensioner members have increased whilst undecided members have reduced. The increased staffing resource within the team has allowed greater focus on processing undecided leavers.

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

A metric helpful in determining the degree of Fund maturity is the ratio of non-active members to total members. Should the metric have shown that the Fund was maturing rapidly, this would be a signal to tilt investments to a more focused income generation strategy. The chart on the next page, however, shows that the maturity level has been flat at around 57% over the past 3 years and as such no specific investment action is required. The maturity of the Fund is also considered by the actuary when conducting triennial valuations.



Analysis of Scheduled and Admission Bodies
The number of employers with a continuing interest in the Fund as at 31 March 2021 is as follows:

Type of Employer	Open	Closed	Total
Scheduled Bodies	9	0	**9**
Admitted Bodies	11	6	**17**
Total	**20**	**6**	**26**

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

Analysis of New Pensioners during 2020/21

Retirement type	
Normal/late from active status	227
Normal/late from deferred status	298
Early payment under freedom and choice	59
Efficiency	22
Redundancy	11
Ill health	41
Total	**658**

Of the retirements above, 36 were flexible retirements, meaning that those individuals have retired and carried on working for their employer but in a materially reduced capacity.

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

This encompasses a broad range of activities, including:

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

Project work undertaken in 2020/21 included the continued roll out of i-Connect, data cleansing, GMP reconciliation work, Funding Strategy and Valuation and work pertaining to closer collaboration with the Lothian Fund.

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

Performance Information

Performance Indicator – Volume and Completion Rate

	New member enrolment	**Estimate requests**	**Retirements from active status**	**Other transactions**
Cases in scope				
2018/19	787	649	428	13,406
2019/20	1,378	618	364	14,007
2020/21	1,236	607	357	11,640
Cases complete d by y/e				
2018/19	720	598	382	11,898
2019/20	1,361	578	312	12,788
2020/21	1,187	528	316	10,456
Cases due at y/e				
2018/19	67	51	46	1,508

2019/20	17	40	52	1,219
2020/21	49	79	41	1,184
Completion rate				
2018/19	91%	92%	89%	89%
2019/20	99%	93%	86%	91%
2020/21	96%	87%	88%	90%

Performance Indicator – Timescales

	New member enrolment	Estimate requests	Retirements from active status	Other transactions
KPI	**21 days of being advised**	**1 month**	**15 days from all information**	**1 month**
Cases in scope				
2018/19	720	598	382	11,898
2019/20	1,361	578	312	12,788
2020/21	1,187	528	316	10,456
Cases meeting target				
2018/19	448	326	358	8,590
2019/20	721	380	295	9,806
2020/21	870	336	302	9,157
Completion rate				
2018/19	62%	55%	94%	72%
2019/20	52%	66%	95%	77%
2020/21	73%	64%	96%	88%

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

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

Internal Disputes Resolution Procedure

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

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

Members whose complaints are not satisfied through IDRP may ultimately appeal to the Pensions Ombudsman. The 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 (soon changing to Money Helper)	0800 011 3797
Pensions Ombudsman	0800 917 4487

The following table lists the disputes settled under the IDRP process in 2020/21:

Subject Matter	Stage 1 Stage Outcome	Stage 2 Outcome / Comment
Member refused early payment of deferred benefit on permanent ill health grounds	Appeal Dismissed	Stage 2 appeal not yet submitted
Member contended hours worked whilst on call out duty should have been pensionable	Appeal Dismissed	Member lost appeal at Stage 1 on basis that there had been no contractual obligation to work the hours. Stage 2 appeal outcome pending
Member refused ill health retirement	Appeal Upheld	Not required
Member refused ill health retirement	Appeal Dismissed	Stage 2 appeal not yet submitted

Communications
Members and employers can obtain information about the scheme by contacting the Pensions Team in writing, by telephone or by e-mail. Contact details can be found on page 7.

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

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

Outlook for 2021/22
In the year ahead, the Fund expects developments in the following areas to impact the administration function:

- McCloud and Goodwin remedies
- Cost Cap
- GMP Reconciliation
- Employer cessations

Investment Policy

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

This Section of the Annual Report looks at:
- Statement of Investment Principles
- Investment Management Arrangements
- Investment Strategy
- Policy Groups
- Comparison of Actual versus Strategic Asset Allocation
- Investment Mandates and Managers

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

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

The SIP outlines the governance arrangements and high-level principles which determine and guide investment policy. The SIP reaffirms that the primary objective of the Fund is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment. It also 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 documents the Fund's investment strategy, which in turn 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 by an independent performance specialist against agreed benchmarks. The SIP also covers the Fund's approach to more general investment issues such as stock lending, use of derivatives and currency risk.

The extent to which the Fund complies with the CIPFA Principles for Investment Decision Making is also contained in the SIP. The most recent version of the SIP was approved by the Pensions Committee in March 2019 and broadly aligned the Falkirk SIP with those adopted by Lothian and Fife Pension Funds.

Investment Management Arrangements

The investment of Fund monies is undertaken by a range of third-party investment managers. Safeguarding of Fund assets is managed by the Custodian, Northern Trust. Performance Measurement is carried out by Portfolio Evaluation. A small change during 2020/21 saw the £41m UK Index Linked Gilts mandate transferred from in house oversight to the external management of LPFI Ltd – Lothian Pension Fund's investment vehicle.

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

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

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 team is responsible for co-ordinating the investment management arrangements including quarterly reconciliations between manager, custodian, and performance specialists. This includes fifteen externally managed property funds which were previously part of a Fund of Funds structure as well as the Fund's Infrastructure, Private Debt and Private Equity portfolios.

Asset valuations are available to the Pensions Team via an on-line portal provided by Northern Trust.

Investment Strategy

A revised investment strategy was approved by the Pensions Committee in December 2018, taking account of advice from Fund advisers and the Chief Finance Officer. Collaboration on strategy between the Falkirk, Fife and Lothian Funds means that the three Funds have:

- a common set of investment beliefs, and
- a common set of high-level asset classifications (e.g., Equities, Real Assets, etc).

The main objective of the Investment Strategy for Falkirk is to achieve a return on Fund assets that meets the Fund's funding objective - currently a return target of gilts plus 2.8% p.a.

Under the strategy, assets are categorised into one of five Policy Groups, with each group having its own return target. The blended return is intended to allow the funding objective to be met. The Policy Groups are considered to be the key determinants of risk and return for the Fund and are the main focus of attention for the Committee. The Committee receives advice and guidance from the Chief Finance Officer and the Joint Investment Strategy Panel in relation to any strategic changes that are required.

Following the recently completed triennial valuation a review of the current investment strategy is taking place with results expected during the summer of 2021.

Policy Groups

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 is responsible for deciding the allocation of capital to subordinate asset classes within the Policy Groups and ultimately to the investment managers.

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

Policy group	Strategic allocation	Long term expected return
Equities	60%	Gilts + 3.5%
Other Real Assets	20%	Gilts + 2.5%
Non Gilt Debt	15%	Gilts + 1.0%
Gilts	5%	Gilts + 0.0%
Cash	0%	0.0%
Totals	**100%**	**Gilts + 2.8%**

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

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

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

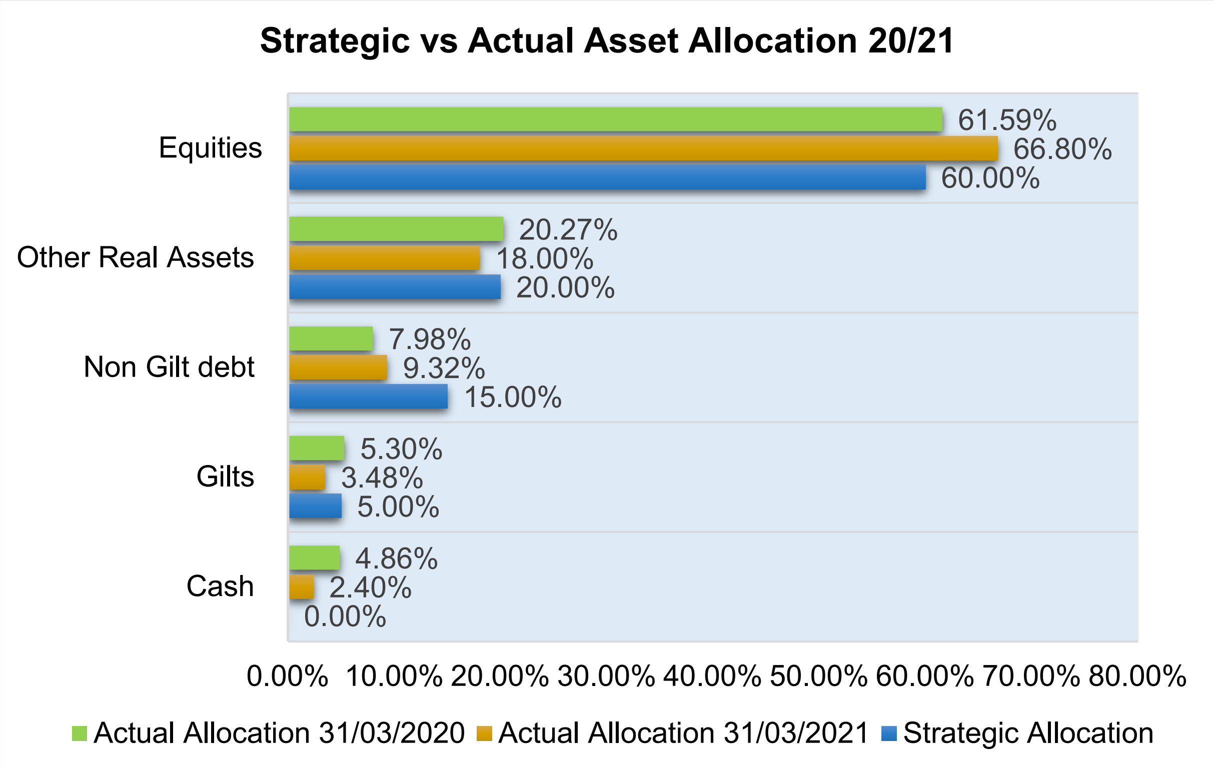
Gilts are debt instruments issued by the UK Government. They are held by the Fund for their liability matching qualities (i.e. long dated index linked gilts can be purchased to closely match the future expected cash flows of the Fund). However, if the Fund was invested solely in Gilts, the expected return would be significantly less than the Fund's target return of Gilts plus 2.8% and employer contribution rates would be correspondingly higher than at present.

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

To avoid unnecessary and costly re-balancing, the Committee has agreed that the level of assets held in each Policy Group may sit within a prescribed range, as follows:

Policy Group	Minimum allocation	Strategic allocation	Maximum allocation
Equities	45%	60%	65%
Other Real Assets	10%	20%	25%
Non Gilt Debt	0%	15%	25%
Gilts	0%	5%	20%
Cash	0%	0%	10%

Comparison of Actual and Strategic Asset Allocation
As can be seen from the following table, the investment strategy is weighted strongly towards equities and other return seeking assets. The Fund will continue to look for opportunities to de-risk should bond yields and funding levels improve. Alternatively, the Fund may look to strengthen some of its underlying funding assumptions to manage funding levels. Since the Fund wishes to have at least a 70% chance of achieving its funding objective, a significant focus is on assets with income generative and low volatility characteristics which allow for capital preservation and sustainable growth.



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

The chart above shows that the actual allocation at 31/03/2021 is at variance with the strategic allocation. This is not unusual given the way asset prices move within markets. Except for equities, the actual allocation within each policy group is within the tolerance limits of the ongoing strategy. Regarding equities, there is a small excess position which has been reported to the Committee and Board. This has arisen due to the strong run enjoyed by equities in the latter half of 2020/21. The position is being monitored by the Joint Investment Strategy Panel. No remedial action is being taken pending the outcome of the strategy review which may alter target allocations. Other factors which have prevented an automatic switch out of equities are the relative unattractiveness of Bonds (i.e. the current low interest rate environment almost guarantees a loss of capital in the long run should interest rates rise) and Non Gilt Debt (i.e. default risk arising from Covid impact on businesses).

Cash levels have gradually declined during 2020/21 as new allocations have been made, notably to the Pictet Global Environmental Opportunities Fund, the Blackrock UK Property Fund, Innisfree PFI Funds and the Legal and General 6A Corporate Bond Fund. Cash was also depleted by the bulk transfer of VisitScotland members' rights to the Lothian Fund (see Page 16 for more detail).

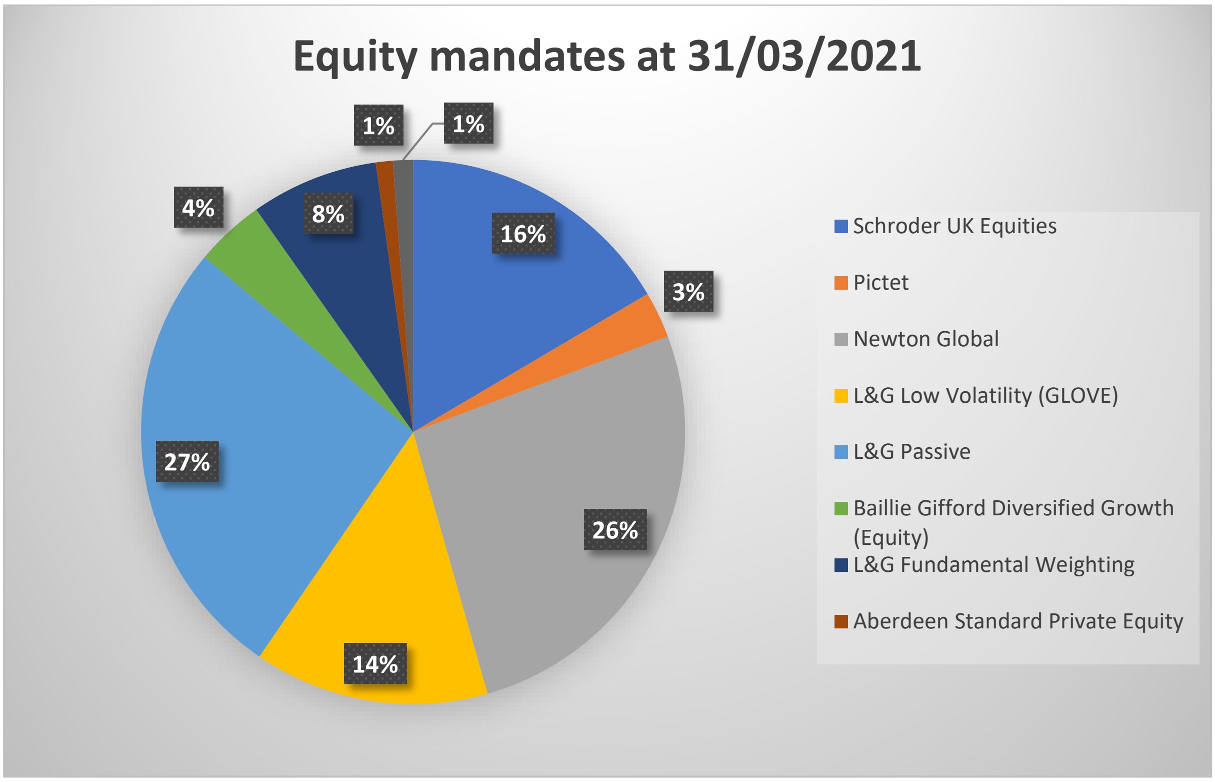
Overall, the Joint Investment Strategy Panel and the Pensions Committee are content with the positioning of the Fund, recognising that broader market conditions and tactical considerations impact on the pace with which the actual allocation can move towards the strategic allocation.

Investment Mandates and Managers

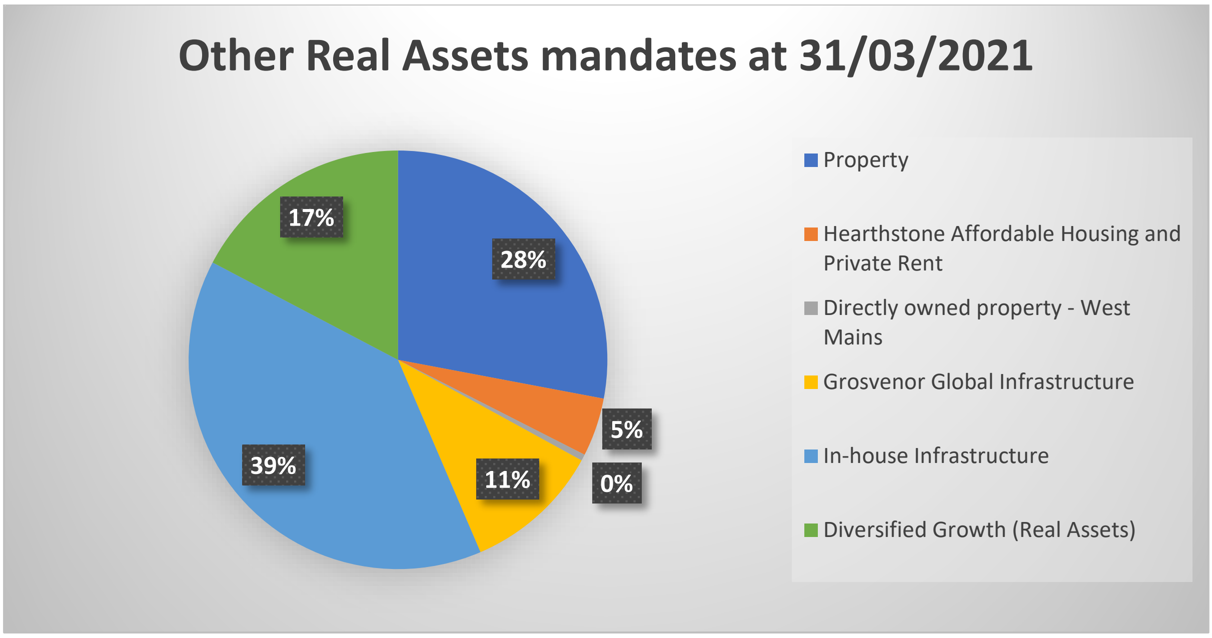
As at 31 March 2021, the Fund's allocation of assets to Policy Groups and investment mandates was as shown in the undernoted pie charts:

Equities

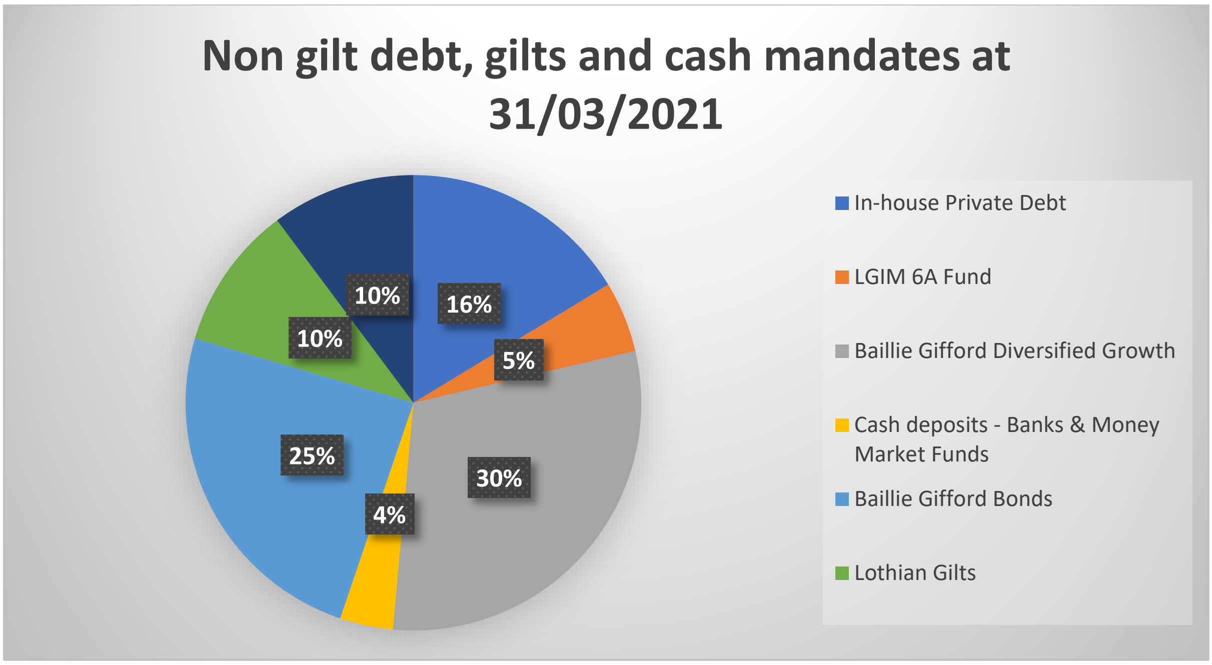
At 31 March 2021, 66.8% of the Fund's assets were invested in Equities as follows:



Other Real Assets
Other Real Assets formed 18.0% of the Fund and were split as shown below:



Non-Gilt Debt, Gilts and Cash
The remaining Fund assets were allocated between non-gilt debt (9.3%), gilts (3.5%) and cash (2.4%), managed as follows:



Investment Performance

This section of the Annual Report deals with the Investment Performance of the Fund during 2020/21 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

During the year, the Fund achieved a return of 22.3% outperforming its composite benchmark of 21.7% by 0.6%. Long term performance (i.e. 20 years) is 7.6% p.a. This is marginally higher than the long term benchmark return and comfortably higher than the gilts plus 2.8% return target of the current investment strategy.

After the sharp decline in asset values in 2019/20 when the Fund lost 6.6% of its value, performance in 2020/21 rebounded in response to positive market sentiment from the flurry of big-ticket items in play (i.e. the Covid-19 vaccine roll-out, Government fiscal and monetary policies, the Biden Presidency and the Brexit trade deal between the UK and the EU).

Longer term returns over 3, 5 and 10 years and from inception (2001) show that the Fund has beaten its benchmark over longer time periods but fallen short of the benchmark over more recent time periods. Detailed returns are as set out in the table below:

Returns	1 year (2020/21) %	3 years % per Annum	5 years % per Annum	10 years % per annum	Inception % per annum*
Fund Return	+22.3	+7.5	+8.9	+8.6	+7.6
Benchmark Return	+21.7	+9.2	+9.6	+8.0	+7.5
Excess Return	+0.6	-1.7	-0.7	+0.6	+0.1

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

The main detractors from benchmark over the past 5 years have been the Schroder UK Equity mandate where the mandate's "Value style" has been out of favour with markets (although strongly in vogue in the latter part of 2020/21) and the Global Equity mandate managed by Aberdeen Standard which was terminated in mid-2019. Performance against benchmark has also suffered from the Fund having minimal exposure to "new wave" technology/media stocks such as Facebook, Amazon, Netflix, Apple, Tesla.

The following table analyses the 2020/21 performance of the five Policy Groups:

Policy Group	Value £m (mid)	Weight %	Fund Return %	Benchmark Return %	Excess Return %
Equities	1,894	66.8%	+32.9	+38.9	-6.0
Other Real Assets	510	18.0%	+5.4	-7.9	+13.3
Non Gilt Debt	264	9.3%	+6.1	+7.2	-1.1
Gilts	99	3.5%	+7.6	+3.6	+4.0
Cash	68	2.4%	-2.3	+0.0	-2.3
Total Fund	**2,835***	**100%**	**+22.3**	**+21.7**	**+0.6**

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

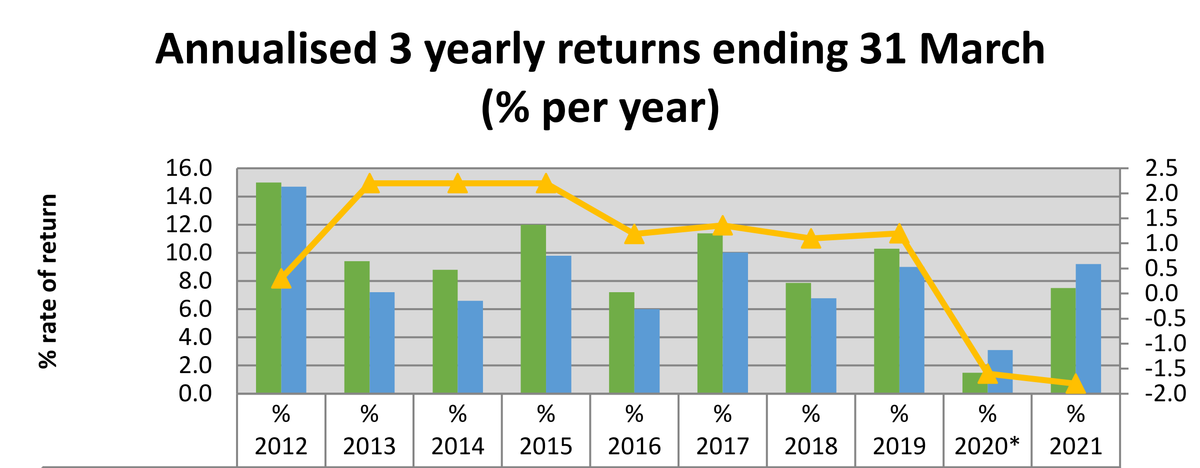
The Chief Finance Officer and the Joint Investment Strategy Panel assess returns in the context of risk taken, mandate constraints and objectives. The total Fund return and the return from the underlying policy groups are measured against specific benchmarks which reflect the return expectations for the asset class. Performance is reported at the quarterly Committee and Board meetings. Benchmarks are as follows:

Policy Group	Benchmark / Performance Objective
Equities	MSCI All Countries World Index Net
Other Real Assets	FTSE Actuaries Gilts Over 15 years +2.5% p.a.
Non Gilt Debt	iBoxx Sterling Non-Gilts +0.2% p.a.
Gilts	FTSE Actuaries Index Linked Gilts Over 15 Years
Cash	7 Day London Interbank Bid Rate (LIBID)
Total Fund	Composite of above benchmarks (excl. Cash)

One year is a very short period over which to measure performance. The Fund has liabilities stretching far into the future and thus performance should be considered in a context that allows short term market "noise" to be averaged out. When reviewing mandates, the Joint Investment Strategy Panel will look at performance over a complete economic cycle.

The following chart gives the 3 yearly rolling average returns for the Fund over the past 10 years. The strong returns reflect the generally benign conditions investors enjoyed in this period based on central bank support and quantitative easing. The 3 yearly returns at 31 March 2020 and 31 March 2021 respectively capture the sharp dip in returns caused by the pandemic and the subsequent recovery triggered by the vaccine roll out. The chart shows that it is only in these two years of the past 10 that the Fund has failed to beat its 3 yearly benchmark and that the

two "years" in question have been impacted by the most extreme of circumstances.



	% 2012	% 2013	% 2014	% 2015	% 2016	% 2017	% 2018	% 2019	% 2020*	% 2021
Fund	15.0	9.4	8.8	12.0	7.2	11.4	7.9	10.3	1.5	7.5
Benchmark	14.7	7.2	6.6	9.8	6.0	10.0	6.8	9.0	3.1	9.2
Relative	0.3	2.2	2.2	2.2	1.2	1.4	1.1	1.2	-1.6	-1.8

* Fund benchmark changed from 1st of April 2019

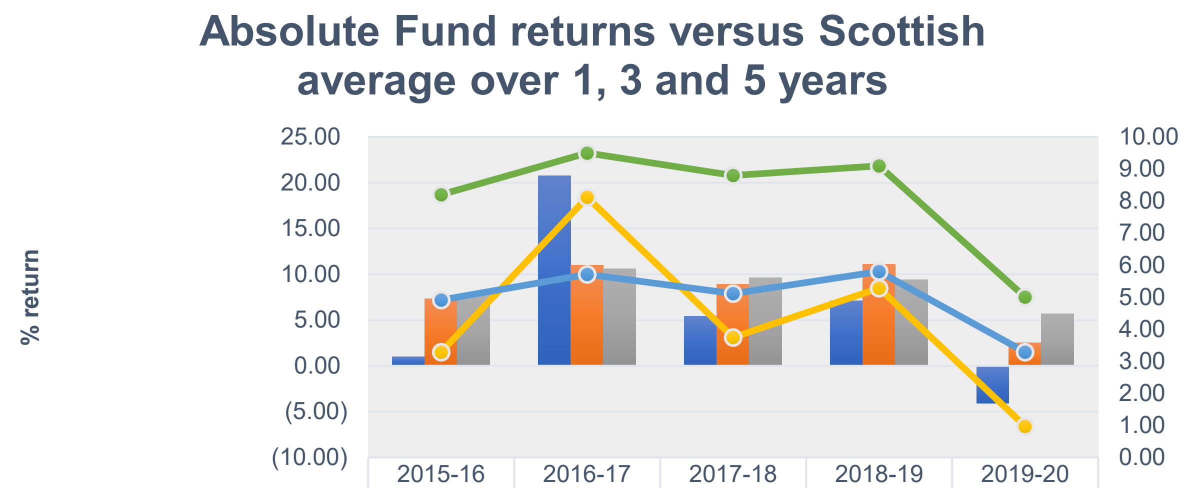
Comparative Performance

To give an indication of how the Fund has performed in comparison with other Scottish Funds, the undernoted table shows the one, three and five year returns for the Fund against the average for Scottish LGPS Funds over the same time periods. Both sets of returns are as at 31 March 2020, since the average results at 31 March 2021 will not be available until later this year:

	1 year (2019/20) %	3 years % pa	5 years % pa
Fund Return	-6.6	+1.5	+5.0
LGPS Scottish Average	-4.1	2.5	5.7

n.b. The LGPS Scottish Average is based on the CIPFA Scottish Directors of Finance Performance Indicators 2019/20.

The chart on the next page illustrates fund performance over the past five years against Scottish LGPS average looking at 1, 3 and 5-year annualised returns. The Fund returns over the 1-year period show a larger variance between the Fund and the Scottish average. However, the variance reduces over the longer horizon of 3 and 5 years.



	2015-16	2016-17	2017-18	2018-19	2019-20
1 year (Scottish average)	0.98	20.76	5.42	7.13	(4.11)
3 year (Scottish average)	7.31	11.01	8.91	11.10	2.50
5 year (Scottish average)	7.70	10.61	9.61	9.43	5.71
1 year (Fund)	1.50	18.40	3.10	8.50	(6.60)
3 year (Fund)	7.20	10.00	7.90	10.30	1.50
5 year (Fund)	8.20	9.50	8.80	9.10	5.00

Source: CIPFA Scottish Directors of Finance benchmarking

Returns below the Scottish average in the past three years are likely to be the result of the Fund having a lower risk, lower return strategy than comparators and not investing in certain strongly performing growth funds.

Manager Monitoring

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

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

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

The Joint Investment Strategy Panel uses a traffic light system to assess overall manager effectiveness including portfolio construction, risk and return, and any wider business activities deemed to be of relevance. The Panel has regard to the fact that changing managers unnecessarily will incur extra costs for the Fund since assets may have to be transacted before a mandate is entrusted to a new manager.

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

Manager Performance

The table below shows the annualised return achieved by managers of the larger Fund mandates over one-, three- and five-year periods to 31 March 2021:

	Absolute Return			Benchmark			Relative to Benchmark		
	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year	1 Year	3 Year	5 Year
Mandate	%pa	%pa	%pa	%pa	%pa	%pa	%pa	%pa	%pa
Equities									
Newton	37.2	15.1	13.2	38.9	12.7	14.1	-1.7	2.4	-0.9
Schroder	40.0	2.3	6.4	26.7	3.2	6.3	13.3	-0.9	0.2
LGIM Passive	35.0	9.7	11.9	34.9	9.6	11.8	0.1	0.1	0.1
LGIM Fundamental Weighting	44.1	9.1	n/a	44.4	9.2	n/a	0.3	-0.1	n/a
LGIM GLOVE	17.3	n/a	n/a	38.9	n/a	n/a	-21.7	n/a	n/a
Pictet Global Env. Opps. Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Private Equity	-3.7	n/a	n/a	39.6	n/a	n/a	-43.3	n/a	n/a
Real Assets									
Infrastructure	5.3	13.0	n/a	-7.9	4.3	n/a	13.1	8.7	n/a
Property	4.0	n/a	n/a	2.7	n/a	n/a	1.3	n/a	n/a
Affordable Housing	7.7	4.3	1.8	3.5	4.2	4.6	4.2	0.1	-2.8
Non-Gilt Debt									
Baillie Gifford Corporate Bond Fund	3.6	n/a	n/a	7.0	n/a	n/a	-3.4	n/a	n/a
Baillie Gifford Investment Grade Fund	8.5	n/a	n/a	7.1	n/a	n/a	1.4	n/a	n/a
LGIM 6A Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Private Debt	7.4	n/a	n/a	4.1	n/a	n/a	3.2	n/a	n/a
Gilts									
LPF Index Linked	6.7	4.4	6.8	7.9	4.3	5.1	-1.2	0.1	1.8
Baillie Gifford Corporate Bond Fund	3.6	n/a	n/a	-5.5	n/a	n/a	9.1	n/a	n/a
Baillie Gifford Diversified Growth	18.2	3.0	5.0	3.6	2.8	1.8	14.5	0.2	3.2

n/a -Investment not held for required period of time or data not available due to performance reporting changes

Comment on Manager Performance

Equities led the way in delivering Fund returns in 2020/21 with all mandates (except private equity) making a positive contribution to the absolute return of 32.9%.

Exceptional performances came from the Schroder UK Equity portfolio and Newton Global Thematic Equities. In particular, the Schroder mandate enjoyed the strong rotation back into “Value” after several years of underperformance. This change in market sentiment was based on the post vaccine outlook with factors such as inflation, purchasing indices and consumer demand suggesting that cyclical stocks were going to be favoured by the market.

The Newton mandate held its own, albeit very slightly behind a demanding benchmark return of 38.9%. Its tilts towards technology and healthcare and its underweighting to energy helped it deliver a creditable return despite the Covid challenges. Towards the end of 2020/21, the Fund started to reduce its exposure to Newton using the capital to fund investment in the Pictet Global Environmental Opportunities Fund.

The Fund’s passive equity mandate with Legal and General performed strongly in line with the broad resurgence in global markets. An even better return was achieved by the factor based fundamental weighting mandate also managed by Legal and General in which higher rated stocks are sold in accordance with a rebalancing timetable and re-invested into lower rated stocks.

It is an objective of the Fund to hold assets, including equities, which behave and perform differently to each other. Although the returns from the Global Low Volatility Equities mandate were, at 17.3%, markedly behind benchmark and behind the returns from other equity mandates, the portfolio still achieved an acceptable absolute return and demonstrated its credentials as a diversifier. The mandate is managed by Legal and General and rebalanced on an annual basis through a set process which identifies the 200 stocks with low volatility characteristics.

The returns from the Fund’s Private Equity managers (Aberdeen Standard and Wilshire Associates) were negative during the year. Barring a one-off commitment in 2014, the Fund has not made any new commitment to Private Equity since 2009. The programme is thus at a mature stage with the valuation of assets being relatively flat or disposals taking place, hence the muted performance numbers.

The infrastructure portfolio consists of a Fund of Funds vehicle managed by Grosvenor Capital and a number of funds separately managed by specialist infrastructure managers including Ancala, Dalmore, Equitix, Innisfree, KKR and Macquarie. Commitments are made through collaborative arrangements with Lothian, Fife and other LGPS Funds. Following on from a strong absolute return of 13% in 2019/20, the portfolio returned 5.3% against a benchmark of minus 7.9%.

The Fund’s property holdings are spread across 15 funds being a mix of balanced funds and more specialist funds. The holdings are managed by a range of

managers with oversight from the Falkirk and Lothian teams. During the year, additional commitments were made to the Blackrock UK Property Fund and to lesser degree the Industrial Property Investment Fund, where in both cases managers saw market opportunities following the disruption of the pandemic. Despite the challenges in the retail and office segments of the portfolio, the returns were 4.0% against a benchmark return of 2.7%.

A separate mandate is invested in Affordable Housing and is managed by property specialists Hearthstone. Properties are all located in Scotland in Perth, Aberdeen, Haddington, Rutherglen, Dalkeith, South Queensferry, Denny and Bo'ness. Returns have stabilised as the mandate has become more fully invested. Consistent with this an absolute return of 7.7% was achieved versus a benchmark of 3.5%. The manager reported that despite the pressures of Covid, rental income had remained robust with occupancy levels improving during the year.

Baillie Gifford manages a variety of debt assets for the Fund, mainly Gilts and Investment Grade Corporate Bonds. Gilts encountered a difficult year as concerns about rising interest rates and the ending of looser monetary policy pushed yields higher and prices lower. That said, the manager still returned 3.6%, outperforming what was a negative benchmark by 9.1%. The picture was more positive for corporate bonds as markets became increasingly confident that companies would prosper in the aftermath of the pandemic. Against this backcloth, the manager returned 8.5% against a benchmark of 7.1%, exceeding the benchmark by 1.4%.

The Non-Gilt Debt assets also include investments in several Private Debt funds managed by Madison, Alcentra, Barings and BlackRock. The asset class is relatively new for the Fund but has pleasingly outperformed in both 2019/20 and 2020/21, returning 7.4% in 2020/21 and exceeding its benchmark by 3.2%.

The Baillie Gifford Diversified Growth Fund contains a wide variety of asset classes. Returns were predominantly driven by the exposure to listed equities.

Investment Holdings

The Fund's 10 largest direct equity holdings at 31/03/2021 are as listed below:

Name of Stock	Market Value as at 31/03/2021 in £	Sector
MICROSOFT CORP	26,976,294	Information Technology
ALPHABET INC CAPITAL	23,309,759	Communication Services
APPLE INC	21,773,301	Information Technology
CITIGROUP INC	17,113,022	Financials
GOLDMAN SACHS GROUP	15,324,184	Financials
SONY GROUP CORPORA	14,854,943	Consumer Discretionary
MASTERCARD INC	14,811,897	Information Technology
ACCENTURE PLC	14,082,511	Information Technology
MEDTRONIC PLC	14,055,482	Health Care
AIA GROUP	13,841,157	Financials

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

The Fund's single largest holding (excluding pooled funds) is in Microsoft and is approximately 1% of the Fund value, and therefore comfortably within the statutory ceiling.

In terms of the evolving nature of the Fund's holdings, it is worth noting that until three years ago the two largest holdings were energy companies with a combined investment value of £35m.

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

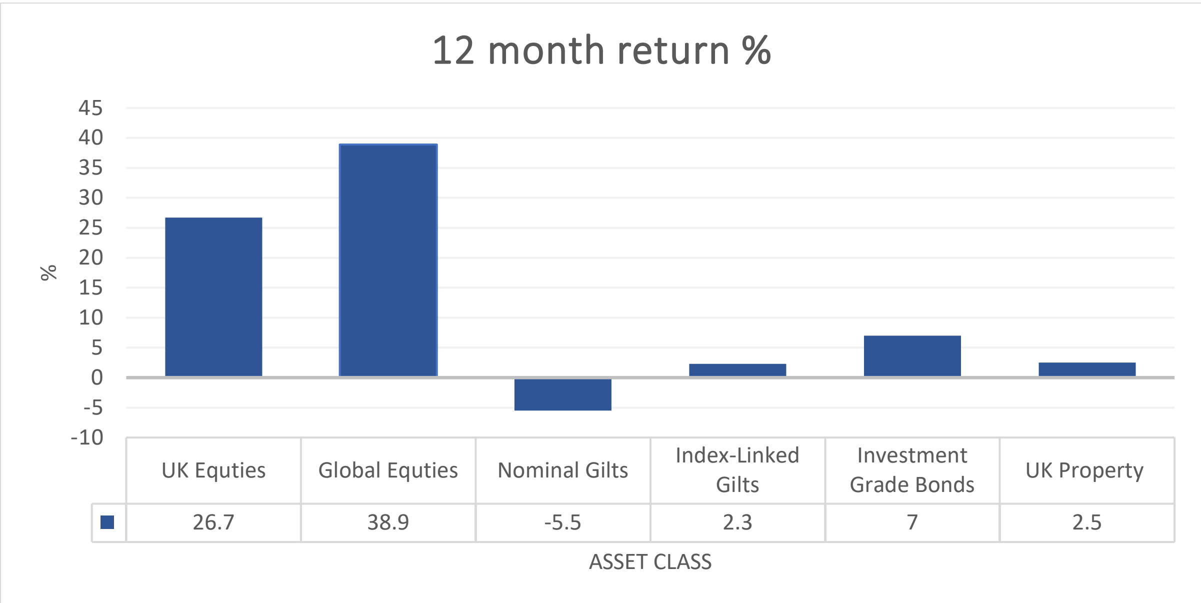
Investment Market Review

For the 12 months to 31 March 2021, UK equities (FTSE All Share) returned +27%, while global equities (MSCI ACWI, in GBP) returned +39%. The rise in global equities for sterling-based investors was offset by a stronger pound (global equities returned +51% in local currency terms). Sterling had weakened sharply alongside equity markets in March 2020 in response to the widening Covid-19 pandemic, before stabilising and then strengthening over the period as risk assets recovered.

Credit spreads, which had spiked higher when equity markets sold off in March 2020, recovered strongly ending the period close to their pre-crisis lows. Government bond yields re-tested lows in May 2020 before rising gradually over much of the year, spiking higher on vaccine developments in November then accelerating further on fiscal stimulus expectations with the confirmation of Democratic candidate Joe Biden as US president-elect in December.

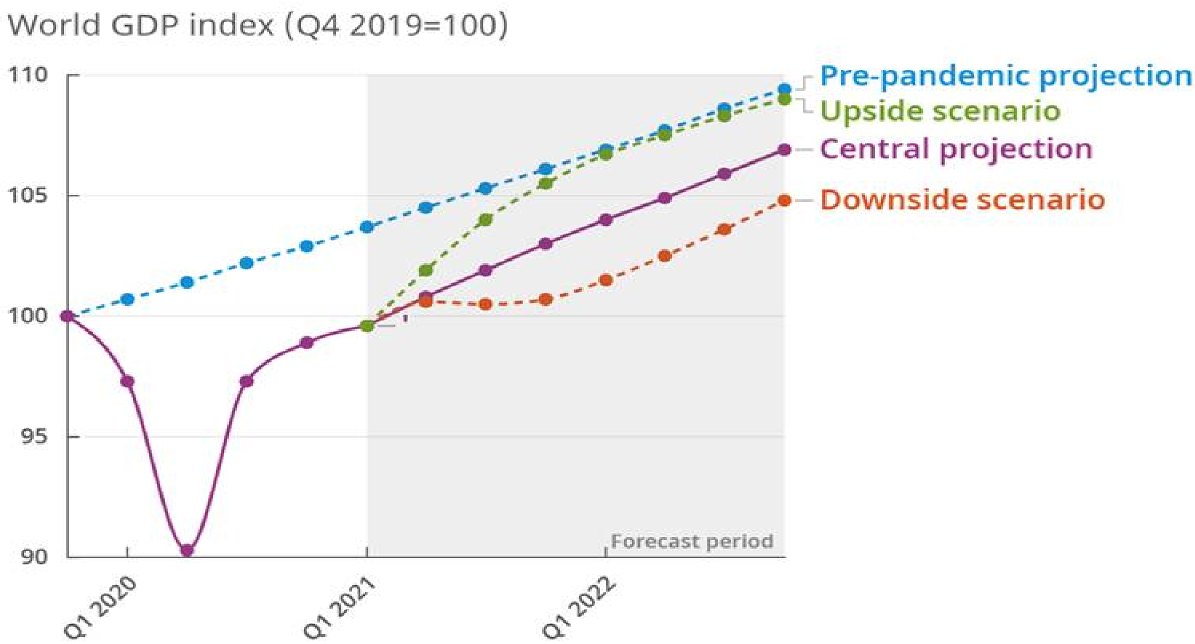
As vaccine rollouts gained momentum, with the UK to the fore, rising economic optimism supported risk assets, such as equities. Commodity prices also rose as manufacturing activity continued to recover and investor attention, in the latter part of the period, turned increasingly towards recovery sectors such as retail, property, travel and leisure, which had been most negatively impacted by lockdowns. Inflation expectations moved sharply higher in the first quarter of 2021, which caused bond yields to rise and prices to fall.

The graph below shows index returns over 12 months to 31 March 2021 for a range of asset classes.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation

The speed with which economies have recovered from the Covid-19 downturn is shown in the World GDP index chart below, alongside the most recent March 2021 forecasts by the OECD. The latest projections provide a much more optimistic outlook than most would have envisaged 12 months ago during the depths of the downturn. The recovery was aided by unprecedented levels of monetary and fiscal support, which cannot be sustained indefinitely; market participants will need to deal, at some point, with the prospect of that support tapering off.



Responsible Investment

Overview
Responsible investment is an approach to investing that aims to integrate Environmental, Social and Governance ("ESG") factors into investment decisions, so as to better manage risk and generate sustainable, long-term returns. Increasingly, good fund stewardship is seen in terms of how a fund manages and allocates its capital in order to create sustainable value for beneficiaries, the economy and society.

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

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

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

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

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

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

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

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

With effect from 1 January 2020, the 2012 version of the Code has been replaced with a 2020 version. The new Code “raises the bar” in terms of the standards that signatories are required to meet and is consistent with the greater attention being given to ESG matters by investors, markets and society in general.

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

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

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

Engagement versus Divestment

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

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

An example of engagement triggering a change in company policy was the resolution co-sponsored by Falkirk in 2019/20 to request Barclays to phase out financing of energy companies not aligned with the Paris Agreement.

Impact Investment

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

Climate Change

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

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

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

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

Core Elements of Recommended Climate-Related Financial Disclosures

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

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

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

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

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

The Fund manages its climate change risk by:

- engaging with investment managers to ensure they are challenging investee companies to assess, *inter alia*:
    - whether climate strategies are robust
    - whether these include any carbon reduction targets

  - whether companies have sufficient Board expertise to oversee the transition to a lower carbon environment
- challenging managers to join the net zero managers initiative (to support the goal of net zero greenhouse gas emissions by 2050 or sooner) in line with global efforts to limit temperature rises to 1.5%. A number of the Fund's managers are already signed up for this initiative including Legal & General, Schroders and Newton.
- by being part of the Local Authority Pension Funds Forum where the collective voting strength of around 80 funds can be used to influence corporate policy
- by being members of organisations such as the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+
- by procuring an Engagement Specialist to challenge company Boards on a range of issues, including climate change.

IIGCC and Climate Action 100+

The Institutional Investors Group on Climate Change is a European entity with more than 300 members, mainly pension funds and asset managers, across 22 countries, with over €37 trillion in assets under management. Its mission is to influence governmental policies on an international scale and to mobilise capital for the low carbon transition that is required.

The Falkirk Fund has recently added its name to the IIGCC coordinated 2021 Global Investor Statement to Governments on the Climate Crisis. The Statement is backed by 457 investors representing over $41 trillion in assets and urges all governments to raise their climate ambition and implement robust policies by COP26 in November. It sets out five actions governments need to urgently undertake:

1. strengthen Nationally Determined Contributions for 2030 in line with limiting warming to 1.5°C
2. commit to a mid-century net zero emissions target with clear sectoral decarbonisation roadmaps
3. ensure ambitious pre-2030 policy action including strengthened carbon pricing, phasing out fossil fuel subsidies and thermal coal-based power, avoiding new carbon-intensive infrastructure (no new coal power plants) and developing just transition plans
4. ensure COVID-19 economic recovery plans support the transition to net zero emissions
5. commit to implementing mandatory climate risk disclosure requirements.

The **Climate Action 100+** initiative exists to engage directly with the world's largest corporate greenhouse gas emitters to

challenge them to take action on climate change. More than 575 global investors are supporting engagement efforts to improve governance, curb emissions and strengthen climate-related disclosures. The companies targeted are 100 'systemically important emitters', who account for two-thirds of annual global industrial emissions, and more than 60 others who have the potential to drive the clean energy transition.

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

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

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

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

Measurements are available from the following managers as at 31/03/2021 are set out in the table below:

Manager	Portfolio Emissions	Benchmark Emissions	Excess Emissions
LGIM UK Equity	137.2	137.2	0.0
LGIM Nth America	149.3	149.3	0.0
LGIM Europe (ex UK)	151.0	151.0	0.0
LGIM Japan	100.8	100.8	0.0
LGIM Asia	201.7	201.7	0.0
LGIM Emerging Mkts	383.7	383.7	0.0
LGIM Fundamental Weighting	252.2	252.2	0.0
LGIM Global Low Volatility	567.7	567.7	0.0
Newton	34.0	158.1	-124.1
Schroders	181.5	120.7	+60.8

Emissions are Tonnes of CO2 per $1m of Revenue (except Newton). Newton metrics are MSCI weighted average carbon intensity figures.

LGIM mandates are run to match a benchmark index, hence the portfolio and benchmark emissions are the same.

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

The Fund's investments in the Pictet Global Environmental Opportunities Fund and, separately, in a portfolio of carbon sink forestry assets are consistent with this commitment.

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

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

Other RI Partner Organisations

Local Authority Pension Funds Forum (LAPFF)

LAPFF is an umbrella organisation representing the interests of around 80 Local Government Pension Funds with assets of over £300 billion and exists to promote the highest standards of corporate governance and responsibility.

Membership of LAPFF is seen as a highly effective way of collaborating on ESG matters. Recent LAPFF campaigns to change corporate behaviour have included executive pay, gender equality in boardrooms and fossil fuel emissions.

Current themes are Climate, Social, Governance and Reliable Accounting Risks. More specifically, LAPFF's work has also included engagement on a range of issues, including Board diversity, plastics pollution, social media content, carbon and environmental risk, executive pay, and other Covid related issues. Engagement is invariably at a personal level between LAPFF office bearers and company chairs or senior executives. With engagements being undertaken remotely, LAPFF has been vocal in seeking to ensure that AGMs are not unnecessarily orchestrated and that shareowners continue to be able to question Boards.

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

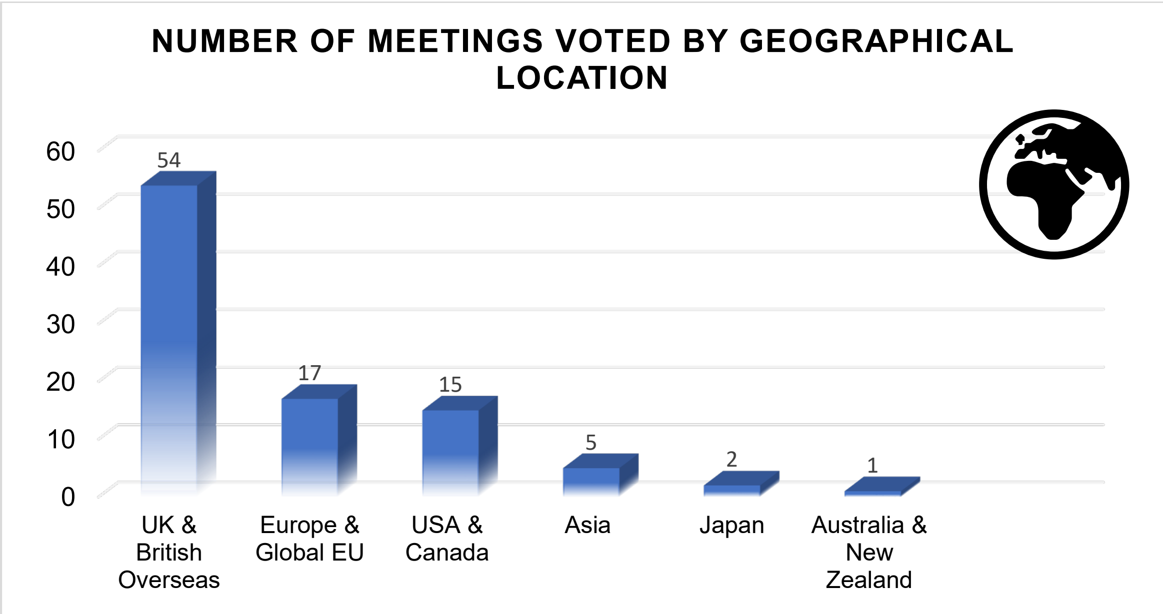
Recent instances of this include:

Company	AGM Date	Vote Proposed	Subject Matter of Resolution
Barclays	07/05/2020	For	Resolutions to phase out financing of energy companies not aligned with Paris Agreement and to support Barclays ambition to be a net zero bank by 2050
Boeing	27/04/2020	Oppose	Re-election of Board – oppose vote due to inadequate governance leading to safety issues with the 737 MAX Aircraft
Rio Tinto	07/05/2020	For	A shareholder resolution to require company to set targets for alignment with Paris Agreement
Alphabet	03/06/2020	For	Shareholder resolutions for equal shareholder voting and establishment of a human rights oversight committee
BHP Billiton	15/10/2020	For	A shareholder resolution aimed at protecting sites of cultural significance in Australia

Voting
Shareholder voting is a key tool in the Fund's armoury as a responsible investor. The Fund uses **Pensions and Investment Research Consultants Ltd (PIRC)** to vote on its behalf and to provide advice and research on a range of matters pertaining to corporate governance.

PIRC's shareholder voting guidelines were presented to the Committee and Board on 26 September 2019 and agreed as being consistent with the Committee's own voting intentions.

During 2020/21, PIRC voted at 94 company meetings on 1,569 resolutions with 1,001 votes being cast in favour of resolutions, 402 opposed, 160 being mainly abstentions or withheld votes. The breakdown of votes by geography and category is set on the next page:



Analysis of resolutions

For	Oppose	Abstain	Non-Voting	Withhold	Withdrawn
1,001	402	117	34	9	6

The votes cover areas such as the 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.

Litigations

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

Risk Management

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

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

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

The policy seeks to ensure that the Fund:

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

Risk Identification, Management and Review

The Fund has adopted the following "virtuous circle" for identifying, managing and reviewing risk

Risks are identified through a variety of means, including:

- performance measurement against agreed objectives
- feedback from employers and other stakeholders

- liaison with other organisations, national associations, professional groups, etc.
- soundings from the Pensions Committee, Pension Board and Fund Advisors
- knowledge, observations and experiences of Officers
- findings of internal and external audit

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

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

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

In relation to any heightened areas of risk or newly identified risks, the Pensions Committee and Pension Board are updated as required (e.g. Covid-19 risk was added in August 2020). Additionally, the register is reviewed by senior officers twice yearly at meetings attended by the Board Chairs. Once reviewed, the register is taken to the Pensions Committee for formal approval. Changes to the current risk register were formally approved at the meeting on the 18 March 2021.

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

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

- the Fund Business Continuity Document
- the Council (Finance) - Business Continuity Recovery Plan

- the Council Corporate Risk Management Policy and Framework

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

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

Key Risks and Mitigations

The areas of greatest risk and the main mitigations put in place by the Fund are as follows (n.b. per risk register as at 31 March 2021):

Identified Risk (classified as Very High)	**Responsible Officers**	**Mitigating Actions**	**Risk Rating Post Mitigation**
Funding position and ability to pay benefits affected by falling asset values	Chief Finance Officer Pensions Manager	• Diverse range of assets held • Strategy overseen by Joint Investment Strategy Panel (JISP) • Allocation to income generating assets • Long term time horizon with no immediate pressure to realise assets • Periodic reviews of investment strategy	Medium
Managers under-perform or performance monitoring is ineffective	Chief Finance Officer Pensions Manager	• Reviews performed by JISP and Lothian's investment team including FCA accredited professionals • Strategic asset allocation to reduce risk and manager diversification • Quarterly calls with managers • Committee/Board and manager reporting cycle • Robust manager selection process • Option to terminate managers	Medium
Asset valuations adversely affected by the impact of climate change	Pensions Manager	• Engagement with investee companies by Fund managers • Members of LAPFF, IIGCC, Scottish Responsible Investment Group and Climate Action 100+ • ESG themed mandate being funded • Adoption of Statement of Responsible Investment Principles • Support for climate change resolutions at AGMs	High
Lack of knowledge, skills and leadership	Chief Finance Officer Pensions Manager	• Training Policy in place • Attendance at conferences or webinars • Access to wide variety of advice • Experienced officers	High

Succession planning inadequate	Chief Finance Officer Pensions Manager	• Staff training and development policies • Delegation to officers and advice from JISP • Reduce key man risk through rotation of duties • Staff access to group and web based forums • Collaborations with Lothian and Fife • Consideration of merger to lessen risk	High
Failure to issue all benefit statements by due date	Pensions Manager Pensions Officers	• Fund has regular contact with employers • Employer training sessions held as required • Employer reminders sent before/after year end • i-Connect project ongoing to move towards monthly data collection	High
Failure to adhere to regulatory standards (TPR) for admin and governance	Pensions Manager Pensions Officers	• Receipt and review of industry publications • Access to specialist scheme wide advisers (LGA) • Scheme return completed annually and participate in TPR surveys • Rolling data improvement plan • Consideration of merger to lessen risk	High
Failure of IT systems including Altair (key admin/payroll system)	Pensions Manager Pensions Officers	• Altair is a hosted, industry standard system • Altair contingency arrangements tested annually • Data backed-up daily • Most applications used are web based • Pensions staff equipped with laptops	Medium
Cyber security attack	Chief Finance Officer Pensions Manager	• Heywood have provided certificates for compliance with – ▪ Cyber Essentials Scheme (expire 11/9/21) ▪ ISO 27001:2013 (expires 19/12/23) ▪ ISO 9001:2015 (expires 19/12/23) ▪ IOS 14001:2015 (expires 30/11/23) • Heywood moved to Cloud hosting • Heywood provide a summary of their annual penetration testing and cyber security reviews • Falkirk Council has attained Cyber Essentials certification and PSN Certification • Regular staff reminders re data security	High
Loss of Staff (e.g. pandemic, adverse weather)	Pensions Manager	• Hosted Web Based Admin and Payroll System • Fund/Council Business Continuity Plans • Council's adverse weather policy • Remote working possible for all staff	Medium
Inaccurate member data on	Pensions Manager	• Continued roll out of monthly online data submission (i-Connect)	High

Altair or incomplete member data due to employer omissions		• Employer training sessions as required • Data quality audit undertaken and cleansing tools used resulting in review and improvement plan • Employer forms revised to improve clarity • Trained staff review of records • Address tracing • Use of Tell Us Once (TUO) to notify deaths	
Staff error or backlogs in service delivery	Pensions Manager Pensions Officers	• Experienced core workforce • Additional staff recruited • Industry standard pensions admin system • Transactions subject to checking mechanism • Robust staff selection procedures • Online procedures manual • Annual staff training including data protection • Outstanding caseload monitored	High
Adverse impact from Covid-19 pandemic	Pensions Manager	• Investment strategy and implementation reviewed regularly by JISP • Diversified asset mix • Fund is in cashflow positive position • Strong engagement with employers and monitoring of covenants • Inter valuation funding updates • Online governance meetings and training • Home working capabilities • National Guidance on Safe Working • Workplace Risk Assessments • National vaccination programme	Medium

Data Security and Cyber Risk

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

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

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

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

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

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

Investment Risk

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

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

Clearly, giving third party investment managers the right to transact on behalf of the Fund carries a major risk. To gain assurance that managers are exercising responsible stewardship of the assets under management, the Fund and its advisers have regular calls and meetings with the managers; discuss manager performance with Fund advisers and seek from managers their audited compliance and control reports. Further assurance comes from the individual manager/administrator internal controls reports where available, details of which (for 2020/21) are as follows:

Fund manager/administrator	Type of report	Assurance obtained	Service Auditors
Aberdeen Standard Investments	AAF 01/06/ISAE3402	Reasonable assurance	KPMG LLP
Alcentra/Sanne	ISAE 3402	Reasonable assurance	KPMG LLP
Ancala/IQ-EQ	ISAE 3402	Reasonable assurance	BDO LLP
Baillie Gifford	ISAE 3402/AAF 01/06	Reasonable assurance	PWC LLP
Barings	SOC 1	Reasonable assurance	Grant Thornton
Blackrock/State Street	SOC 1	Reasonable assurance	EY LLP
Brookfield/SS&C GlobeOp	SOC 1	Reasonable assurance	PWC LLP
Crestbridge Ltd	ISAE3402	Reasonable assurance	PWC LLP
Dalmore Capital	ISAE 3402	Reasonablea ssurance	PWC LLP
GCM/SEI Investments	SOC 1	Reasonable assurance	EY LLP
Hermes	AAF 01/06	Reasonable assurance	EY LLP
L&G/JTC (Jersey) Ltd	ISAE3402	Reasonable assurance	PWC LLP
Legal & General	AAF 01/06/ISAE3402	Reasonable assurance	KPMG LLP
Madison Capital/ J.P. Morgan	SOC1	Reasonable assurance	PWC LLP
Newton Investment Management	ISAE3402/SSAE18	Reasonable assurance	KPMG LLP
Oaktree Capital Management LP	attestation standards established by the American Institute of Certified Public Accountants	Reasonable assurance	EY LLP
Schroder Investment Management	ISAE 3402/AAF 01/06	Reasonable assurance	EY LLP
Nuveen/Azter Group	ISAE 3042	Reasonable assurance	KPMG LLP
UBS (Greensands)	ISAE 3402	Reasonable assurance	EY LLP
Resonance British Wind/TMF Group	ISAE 3042	Reasonable assurance	EY LLP

Statements of Responsibilities

Administering Authority's Responsibilities

The Authority is required to:

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

I confirm that these Annual Accounts were approved for signature by the Falkirk Council Pension Fund Committee at its meeting on 23 September 2021.

Councillor Adanna McCue
Chair of the Pensions Committee

Chief Finance Officer Responsibilities

The Chief Finance Officer is responsible for the:

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

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

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

The Chief Finance Officer has also:

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

Certificate by the Chief Finance Officer

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2021 and the transactions of the Pension Fund for year ended 31 March 2021.

Bryan Smail, CPFA MBA
Chief Finance Officer (Falkirk Council)
23 September 2021

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 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the fund during the year ended 31 March 2021 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 2020/21 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 five years. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor’s report continued

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

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

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

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

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

Falkirk Council is responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

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

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

Independent auditor’s report continued

Procedures include:

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

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

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.
A further description of the auditor’s responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Independent auditor’s report continued

Reporting on other requirements

Statutory other information

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

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

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

Opinions prescribed by the Accounts Commission

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

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

Independent auditor’s report continued

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

Hassan Rohimun,
for and on behalf of Ernst & Young LLP, Appointed Auditor
2 St Peter’s Square, Manchester M2 3DF
Date: 29 September 2021

Pension Fund Account

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

Dealings with members, employers and others directly involved in the fund	**2019/20 in '000**	**2020/21 in '000**	**Note**
Contributions	(91,987)	(96,151)	7
Transfers in from other pension funds	(6,418)	(2,407)	8
	(98,405)	**(98,558)**	
Benefits	78,189	79,483	9
Payments to and on account of leavers	6,192	13,370	10
	84,381	**92,853**	
Net (additions)/withdrawals from dealings with members	**(14,024)**	**(5,705)**	
Management expenses	16,404	**19,143**	11
Net (additions)/withdrawals including fund management expenses	**2,380**	**13,438**	

Returns on investments			
Investment income	(43,724)	(37,232)	12
Taxes on income	1,044	1,007	
Profit and losses on disposal of investments and changes in market value of investments	201,568	(490,154)	14a
Net return on investments	**158,888**	**(526,379)**	
Net (increase)/decrease in the net assets available for benefits during the year	**161,268**	**(512,941)**	
Opening net assets of the scheme	**2,490,179**	**2,328,911**	
Closing net assets of the scheme	**2,328,911**	**2,841,852**	

Pension Fund Net Asset Statement

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

	2019/20 in '000	2020/21 in '000	Note
Investment assets	2,317,994	2,845,137	14
Investment liabilities	(1,200)	(12,197)	14
Total net investments	**2,316,794**	**2,832,940**	
Long term assets	-	66	20a
Current assets	15,573	11,717	20
Current liabilities	(3,456)	(2,871)	21
Net Assets of the fund available to fund benefits at the period end	**2,328,911**	**2,841,852**	

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

The unaudited accounts were issued on 24 June 2021 and the audited accounts were authorised for issue on 23 September 2021.The Statements of Accounts present a true and fair view of the financial position of the Pension Fund as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Bryan Smail, CPFA MBA
Chief Finance Officer (Falkirk Council)
23 September 2021

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. Best practice guidance is provided by the Pensions Regulator.

Administration of the Falkirk Council Pension Fund is undertaken by an in-house team who oversee the Fund's investments and the benefits of its scheme members. This includes the contributors, deferred and pensioner members of Clackmannanshire, Falkirk, and Stirling Councils, as well as around 25 other employers. Teachers (also local authority employees) do not come within the scope of the LGPS as they have their own national pension arrangement. A full list of employers who participate in the Falkirk Council Pension Fund is included in this report in Appendix 2.

Membership

Membership of the LGPS is voluntary. However, employees are enrolled in the scheme automatically (either as a result of auto enrolment legislation or by virtue of the Scheme's own contractual enrolment provisions). Employees

are free to choose whether to remain in the scheme or, having opted out, join it at a later date.

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

Full details of membership numbers are contained on page 40 of the Annual Report.

Benefits
Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2015, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

Benefits are summarised in the table below:

	Service pre 1 April 2009	**Service post 31 March 2009**	**Service post 31 March 2015**
Pension	Each year worked is worth 1/80th x final pensionable salary	Each year worked is worth 1/60th x final pensionable salary	Each year worked is worth 1/49 of pensionable earnings
Lump Sum	Automatic lump sum of 3 x annual pension In addition, part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.
	Where the lump sum is greater than 25% of the capital value of the pre 2009 and post 2009 pension rights, a tax charge will apply.		

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

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year end as at 31 March 2021.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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.

IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. The Fund assessed implementation of IFRS16 and is not expecting any material impact on the Fund.

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 of the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement or in the notes to the accounts by appending an actuarial report for this purpose. The Fund has opted to disclose this information in Note 19.

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Fund will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue; this being at least 12 months from the approval of these financial statements at 23 September 2021.

The financial statements are prepared in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which outlines that as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Fund is established under secondary legislation made under the terms of the Public Service Pensions Act 2013 and is therefore expected to be a going concern until notification is given that the body will be dissolved and its functions transferred. At the date of approval of the financial statements there is no indication that this will be the case.

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

- Financial performance and position at 31 March 2021
- Update on asset position post year end (a small increase in valuation of the Fund)
- Expected impact of forecasted cash flow on costs and expenditure through management costs and benefits payable for 12 months from the financial statements' approval at 23 September 2021
- Readily available funds at 31 March 2021 and post year-end – cash/investments.

At 31 March 2021, the Fund was holding £78million in in-house managed cash (£75million in deposits and £3.5million in its current account) whereas it's average monthly outgoings are £8.5 - £9million. The Fund forecasts throughout the going concern assessment period to receive contributions in excess of outgoing benefits payments being due by approximately £12 million per year. In the unlikely event that the Fund needed to raise cash, it holds £1.9 billion in what are liquid investments in the form of listed equities. These are generally realisable within 3-4 days of trade execution. Therefore, despite the ongoing uncertainties around Covid-19, the Fund remains in a strong position with a healthy funding position, liquid assets that are readily convertible to cash, cash in the bank and net positive cash inflows. The Fund has considered its financial position in the context of the pandemic and other factors and has concluded that the Fund is well placed to continue to manage its business and financial risks successfully. As a result, it has concluded that the financial statements are appropriately prepared on a Going Concern basis.

3. Summary of Significant Accounting Policies

Fund Account - revenue recognition

a) Contribution income

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

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all 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.

b) Transfers to and from other schemes

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

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

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

c) Investment income

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

Fund Account - expense items

d) Benefits payable

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

e) Taxation

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

f) Management Expenses

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

- **Administrative Expenses**
  All staff costs of the Pensions Administration Team are charged direct to the Fund. Associated management, accommodation and

other overheads are apportioned to this activity and charged as expenses to the Fund.

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

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

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 15).

h) Freehold and leasehold properties

The Fund's directly owned property was valued at 31 March 2021 by independent external valuers on the fair value basis and in accordance with the latest edition of the RICS Valuation - Professional Standards (Red Book), see Note 15 for more details.

i) Foreign currency transactions and balances

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

j) Cash and cash equivalents

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

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

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (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 Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2010 but are disclosed for information in Note 22.

n) Contingent assets and contingent liabilities

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

A contingent liability arises where an event 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 24 and Note 25).

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 19.

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary	For instance: -a 0.5% p.a. increase in the pension increase rate would increase liabilities by £363m

	increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	-a 0.5% increase in salary increase rate would increase liabilities by £48m -0.5% decrease in the real discount rate would increase future liabilities by £421m
Directly held property (Note 15)	Valuation techniques are used to determine the carrying values of directly held property. Where possible these valuation techniques are based on observable data, otherwise the best available data is used.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments by up to 13% i.e. an increase or decrease of £325k on carrying values of £2.5m.
Private Equity Infrastructure/Private Debt (Note 15)	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (December 2018) and the Special Guidance issued March 2020 concerning the impact of Covid-19 on valuations. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity, infrastructure, private debt investments are valued at £355m in the financial statements. There is a risk that this investment may be under- or overstated in the accounts by up to 30% depending on asset class, i.e. an increase or decrease of £49m. Details for each category are shown in the Note 15.

6. Events after the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of reporting period – the statement of accounts is adjusted to reflect such events

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

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

The Fund has received updated Private Equity/Infrastructure/Private Debt statements for 31 March 2021 after preparing the accounts. The variance between the valuation included in the accounts and the updated statements amounts to £12.2m (£6.8m at 31 March 2020). The amount is not material and therefore no adjustment has been made in the Net Asset Statement.

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 24 June 2021 and the audited Statement of Accounts was authorised for issue on 23 September 2021. Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

7. Contributions Receivable

By Category	2019/20	2020/21
	£'000	**£'000**
Employees' contributions	19,567	**20,632**
Employers' contributions	69,705	**72,456**
Employers' deficit recovery contributions	2,715	**3,063**
Total	91,987	**96,151**

By type of Employer	2019/20	2020/21
	£'000	**£'000**
Administering authority	31,766	**32,927**
Other scheduled bodies	50,735	**53,480**
Admitted bodies	9,486	**9,744**
Total	91,987	**96,151**

8. Transfers from Other Pension Funds

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

	2019/20	2020/21
	£'000	**£'000**
Individual transfers	6,418	**2,407**

9. Benefits Payable

By Category	2019/20	2020/21
	£'000	**£'000**
Pensions	59,696	**63,011**
Commutation and lump sum retirement benefits	16,451	**14,123**
Lump sum death benefits	2,042	**2,349**
Total	78,189	**79,483**

By type of Employer	2019/20	2020/21
	£'000	**£'000**
Administering authority	26,927	**26,907**
Other scheduled bodies	44,040	**45,607**
Admitted bodies	7,222	**6,969**
Total	78,189	**79,483**

10. Payments to and on Account of Leavers

By Category	2019/20	2020/21
	£'000	**£'000**
Refunds to members leaving service	305	**172**
Individual transfers	5,661	**4,954**
Group transfers	226	**8,244**
Total	6,192	**13,370**

11. Management Expenses

By Category	2019/20	2020/21
	£'000	**£'000**
Administrative costs	919	**960**
Investment management expenses	14,546	**17,148**
Oversight and governance costs	939	**1,035**
Total	16,404	**19,143**

11a. Investment Management Expenses

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

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

2019/20	Total	Management fees*	Performance related fees	Transaction costs
Bonds	**32**	-	-	32
Equities	**3,164**	2,629	-	535
Pooled Investments	**5,068**	2,820	-	2,248
Managed Property Funds	**2,160**	2,120	40	-
Private Equity	**622**	616	6	-
Infrastructure	**3,138**	2,487	648	3
Private Debt	**269**	269	-	-
		10,941	**694**	**2,818**
Custodian Fees	**85**			
Other	**8**			
	14,546			

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

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 2020/21 is £1.8m (£4m in 2019/20). The reduction in fees is due to value of private equity portfolio reducing as it enters it's winding down phase.

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.

The increase in 2020/21 fees is mostly attributable to performance fees in relation to Private Equity and Infrastructure. Performance fees are payable only when a specific rate of return is achieved and after the period of performance under review has been completed, confirmed, and the fee finalised.

12. Investment Income

By Category	2019/20	2020/21
	£'000	**£'000**
Income from equities	28,197	**20,986**
Private equity income	588	**57**
Income from bonds	63	**191**
Pooled property investments	5,469	**4,114**
Directly owned property	238	**235**
Infrastructure	6,426	**8,582**
Private debt	1,812	**2,948**
Cash and other income	931	**119**
Total before tax	43,724	**37,232**

13. Other Fund Account Disclosures

13a. External Audit Costs

	2019/20	2020/21
	£'000	**£'000**
Payable in respect of external audit	25	32

14. Investments

Investment Assets	2019/20	2020/21
	£'000	£'000
Bonds	**42,230**	**43,530**
Equities	595,158	**785,601**
Pooled investments		
Equities	701,893	**963,048**
Fixed Income	151,260	**177,788**
Diversified Growth	220,578	**261,136**
Affordable Housing	22,299	**23,087**
Other Investments		
Managed property funds	138,587	**152,779**
Directly owned property	2,600	**2,500**
Private equity	51,902	**41,337**
Infrastructure	236,489	**249,953**
Private debt	45,188	**63,723**
Derivatives (Forward currency contracts)	518	**-**
Cash deposits	103,031	**75,445**
Investment income due	3,904	**4,514**
Amounts receivable for sales	2,357	**696**
Total Investments Assets	2,317,994	**2,845,137**

Investment Liabilities		
Amounts payable for purchases	(1,200)	**(12,197)**
Total Investment Liabilities	(1,200)	**(12,197)**

Net Investment Assets	2,316,794	**2,832,940**

14a. Reconciliation of Movements in Investments and Derivatives

Period	Market value 01/04/2020	Purchases at cost	Sales proceeds	Change in market value	Market value 31/03/2021
Investment Assets					
Bonds	42,230	10,480	(7,824)	(1,356)	**43,530**
Equities	595,158	249,689	(282,974)	223,728	**785,601**
Pooled investments	1,096,030	70,000	(9,015)	268,044	**1,425,059**
Managed property funds	138,587	13,601	(1,960)	2,551	**152,779**
Directly owned property	2,600	-	-	(100)	**2,500**
Private equity	51,902	2,499	(10,747)	(2,317)	**41,337**
Infrastructure	236,489	45,255	(35,215)	3,424	**249,953**
Private debt	45,188	20,357	(491)	(1,331)	**63,723**
Derivatives					
• Options	-	648	(749)	101	**-**
• Forward currency contracts	518	1,174	(560)	(1,132)	**-**
	2,208,702	**413,703**	**(349,535)**	**491,612**	**2,764,482**
Cash deposits	103,031	49	(1,061)	(1,458)	**75,445**
Amounts receivable for sale	2,357				**696**
Investment income due	3,904				**4,514**
Payable for purchases	(1,200)				**(12,197)**
Net investment assets	**2,316,794**			**490,154**	**2,832,940**

Period	Market value 01/04/2019	Purchases at cost	Sales proceeds	Change in market value	Market value 31/03/2020
Investment Assets					
Bonds	4,815	-	-	37,415	**42,230**
Equities	942,580	215,427	(197,437)	(365,412)	**595,158**
Pooled investments	980,187	19,081	(8,590)	105,352	**1,096,030**
Managed property funds	147,628	483	(4,443)	(5,081)	**138,587**
Directly owned property	2,600	-	-	-	**2,600**
Private equity	57,640	1,776	(14,713)	7,199	**51,902**
Infrastructure	179,406	67,065	(27,231)	17,249	**236,489**
Private debt	18,438	30,792	(4,349)	307	**45,188**
Derivatives					
• Options	-	1,445	(689)	(756)	**-**
• Forward currency contracts	226	843	(2,170)	1,619	**518**
	2,333,520	**336,912**	**(259,622)**	**(202,108)**	**2,208,702**
Cash deposits	140,041	1,664		540	**103,031**
Amounts receivable for sale	24,437				**2,357**
Investment income due	5,125				**3,904**
Payable for purchases	(22,470)				**(1,200)**
Net investment assets	**2,480,653**			**(201,568)**	**2,316,794**

14b. Investments Analysed by Fund Manager

	2019/20 £'000	2019/20 %	2020/21 £'000	2020/21 %
L&G Investment Management Ltd	731,786	31.5	**964,548**	**34.0**
Newton Investment Management Ltd	407,700	17.6	**497,932**	**17.6**
Baillie Gifford & Co Ltd	371,839	16.0	**419,345**	**14.8**
Schroder Investment Management Ltd	287,361	12.4	**378,458**	**13.4**
Dalmore Capital	61,932	2.7	**68,663**	**2.4**
Grosvenor Capital	69,627	3.0	**53,952**	**1.9**
Pictet Asset Management	-	-	**52,394**	**1.8**
Blackrock	28,180	1.2	**41,117**	**1.5**
LPFI Ltd	-	-	**39,886**	**1.4**
Equitix Investment Management	23,575	1.0	**32,200**	**1.1**
Aberdeen Standard Investment	33,824	1.5	**27,829**	**1.0**
Hearthstone	22,299	1.0	**23,087**	**0.8**
Wilshire Private Markets Group	27,113	1.2	**22,564**	**0.8**
Ancala Partners	18,395	0.8	**18,937**	**0.7**
Hermes Investment Management	15,780	0.7	**15,344**	**0.5**
Madison Capital Funding	14,680	0.6	**18,037**	**0.6**
Alcentra	9,858	0.4	**15,739**	**0.6**
Barings	6,549	0.3	**15,035**	**0.5**
Innisfree	-	-	**13,623**	**0.5**
Alinda	6,921	0.3	**10,896**	**0.4**
Global Infrastructure Partners	9,839	0.4	**9,297**	**0.3**
Greensphere	8,192	0.4	**7,104**	**0.3**
KKR	6,255	0.3	**6,626**	**0.2**
InfraRed Capital Partners Ltd	6,042	0.3	**5,772**	**0.2**
Oaktree Capital	4,816	0.2	**5,317**	**0.2**
Brookfield Global Funds	4,402	0.2	**4,658**	**0.2**
Harbert Management Corporation	8,428	0.4	**4,255**	**0.2**
UBS/Greensands	5,394	0.2	**3,736**	**0.1**
FIM Harburnhead LP	3,244	0.1	**3,109**	**0.1**
Macquarie	1,649	0.1	**2,957**	**0.1**

Resonance Wind	3,172	0.1	**2,587**	**0.1**
Nuveen	2,049	0.1	**1,427**	**0.1**
Crestbridge	2,423	0.1	**1,095**	**0.0**
M&G UK Companies	3	0.0	**-**	**-**
Directly Owned Property	2,600	0.1	**2,500**	**0**
In-House Gilts	36,893	1.6	**-**	**-**
In-House Cash	73,974	3.2	**42,914**	**1.5**
Total	2,316,794	100.0	**2,832,940**	**100**

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

	2019/20	**2019/20**	**2020/21**	**2020/21**
	£'000	**%**	**£'000**	**%**
STCB – Transition CSFU (GLOVE)	230,312	9.9	**264,717**	**9.3**
Baillie Gifford Diversified Growth	220,578	9.5	**261,136**	**9.2**
L&G UK Equity Index (OFC)	140,092	6.0	**191,256**	**6.8**
L&G N America Equity Index (OFC)	119,115	5.1	**166,758**	**5.9**
L&G FTSE RAFI AW 3000 EQ IND (OFC)	-	-	**143,419**	**5.1**

14c. Securities Lending

The Fund did not participate in any stock lending programmes.

14d. Property Holdings

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

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

	2019/20	**2020/21**
	£'000	**£'000**
Within one year	234	**169**
Between one and five years	396	**312**
Later than five years	10	**5**
Total	**640**	**486**

15. Fair Value – Basis of Valuation

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.
Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

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

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

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

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

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

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

Guidance (March 2020)	unaudited accounts

Sensitivity of assets valued at level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

	Assessed valuation range (+/-)	Value at 31 March 2021	Potential change +/-	Value on increase	Value on decrease
	%	**£'000**	**£'000**	**%**	**£'000**
Infrastructure	12.0%	249,953	29,994	279,947	219,959
Private debt	10.5%	63,723	6,691	70,414	57,032
Private equity	30.0%	41,337	12,401	53,738	28,936
Affordable housing	13.0%	23,087	3,001	26,088	20,085
Directly held property	13.0%	2,500	325	2,825	2,175
		380,600	**52,412**	**433,012**	**328,187**

15a. Fair Value Hierarchy

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

Values at 31 March 2021	Quoted market prices Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Financial assets at fair value through profit and loss	**£'000**	**£'000**	**£'000**	**£'000**
Bonds		43,530		**43,530**
Equities	785,601			**785,601**
Pooled Investments		1,401,972	23,087	**1,425,059**
Managed Property Funds		152,779		**152,779**
Private Equity			41,337	**41,337**
Infrastructure			249,953	**249,953**
Private Debt			63,723	**63,723**

Cash deposits	75,445			**75,445**
Investment income due	4,514			**4,514**
Amounts receivable from sale	696			**696**
Net investments assets	**866,256**	**1,598,281**	**378,100**	**2,842,637**
Non-financial assets at fair value through profit and loss				
Property			2,500	**2,500**
Financial liabilities at fair value through profit and loss				
Payable for investment purchases	(12,197)			**(12,197)**
Total	**854,059**	**1,598,281**	**380,600**	**2,832,940**

15b. Reconciliation of fair value measurements within Level 3

	Infrastructure	**Private debt**	**Private equity**	**Affordable housing**	**Directly held property**	**Total**
	in'000	in'000	in'000	in'000	in'000	in'000
Value at 31 March 2020	236,489	45,188	51,902	22,299	2,600	358,477
Purchases	45,255	20,357	2,499	-	-	68,111
Sales	(35,215)	(491)	(10,747)	(825)	-	(47,278)
Unrealised gains and losses*	(13,226)	(1,881)	(8,594)	1,613	(100)	(22,188)
Realised gains and losses*	16,650	550	6,278	-	-	23,478
Value at 31 March 2021	**249,953**	**63,723**	**41,337**	**23,087**	**2,500**	**380,600**

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

	Infrastructure	Private debt	Private equity	Affordable housing	Directly held property	Total
	in'000	in'000	in'000	in'000	in'000	in'000
Value at 31 March 2019	179,406	18,438	57,640	24,024	2,600	282,108
Purchases	67,065	30,792	1,776	-	-	99,633
Sales	(27,231)	(4,349)	(14,713)	(2,797)	-	(49,090)
Unrealised gains and losses*	5,420	(1,019)	(1,868)	1,072	-	3,605
Realised gains and losses*	11,829	1,326	9,067	-	-	22,222
Value at 31 March 2020	**236,489**	**45,188**	**51,902**	**22,299**	**2,600**	**358,478**

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

16. Classification of Financial Instruments

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

	2019/20			2020/21		
	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
Financial Assets	in'000	in'000	in'000	in'000	in'000	in'000
Bonds	42,230			43,530		
Equities	595,158			785,601		
Pooled Investments	1,096,030			1,425,059		
Manged Property Funds	138,587			152,779		
Private Equity	51,902			41,337		
Infrastructure	236,489			249,953		
Private Debt	45,188			63,723		
Derivative contracts	518			-		
Cash		111,056			78,914	
Other investment balances		6,261			5,210	
Debtors		7,548			8,166	
	2,206,102	**124,865**	**-**	**2,761,982**	**92,290**	**-**
Financial Liabilities						
Other investment balances	(1,200)			(12,197)		
Creditors			(3,456)			(2,723)
	2,204,902	**124,865**	**(3,456)**	**2,749,785**	**92,290**	**(2,723)**
Total	**2,326,311**			**2,839,352**		
Amounts not classified as financial instruments	2,600			2,500		
Total Net Assets	**2,328,911**			**2,841,852**		

17. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains

across the whole portfolio. The Fund achieves this through asset diversification to reduce market risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that it holds sufficient funds to meet future cash flows. Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are reviewed on an on-going basis to reflect changes in activity and in market condition.

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

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

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

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

The Fund’s approach to managing risk can be described in two fundamental ways:
- by maintaining asset class exposures such that risk remains within tolerable levels
- by applying maximum exposures to individual investments

(ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
The Fund’s interest rate risk is recognised by the Fund and its investment advisors. The Fund monitors the interest rate risk faced and will adjust its strategy in accordance with its Statement of Investment Principles. The Fund's direct exposure to interest rate movement as at 31 March 2021 is estimated to be around £379.9m (31 March 2020: £412.4m).

(iii) Currency Risk

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

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

The Fund's currency exposure as at 31 March 2021 is estimated to be around £608m (31 March 2020: £633m).

(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 2021 accounted for 2.7% of Fund assets (31 March 2020: 4.2%).

Held for investment purposes	Balance 31/03/2020 £'000	Moody's Credit Rating	Balances 31/03/2021 £'000
Northern Trust Global Investment Limited – Liquidity Funds	73,152	Aa2	60,134
Aberdeen Standard Liquidity Fund (Lux) Sterling	5,000	AAA-mf	5,000
Northern Trust Company – Cash Deposits	1,444	Aa2	586
Santander UK PLC	4,051	A1	4,560
Bank of Scotland PLC	5,113	A1	5,164
Total investment cash	**88,760**		**75,444**
Held for other purposes			
Royal Bank of Scotland	8,025	A1	3,469
Total cash	**96,785**		**78,913**

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

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

(v) Liquidity Risk

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

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

(vi) Refinancing Risk

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

that have a refinancing risk as part of its management and investment strategies.

Sensitivity Analysis

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

Asset type	Potential price movement (+ or -)
Equities developed markets	20.5%
Equities – Emerging Markets	28.0%
Private Equity	30.0%
Private Debt	10.5%
Commodities	30.0%
Property	13.0%
Infrastructure	12.0%
Corporate Bonds	7.2%
Diversified Credit	9.5%
Fixed Interest Gilts	8.1%
Index-Linked Gilts	11.5%
Overseas bonds	8.2%
Cash	1.0%

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

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

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

Position as at 31 March 2021

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

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 2020 are set out in the table below.

Position as at 31 March 2020

Asset type	Asset value £'m	Asset weight	Volatility	Potential change +/- in £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	1,292.9	55.8%	20.5%	265.0	1,558.0	1,027.9
Equities – Emerging Markets	48.3	2.1%	30.0%	14.5	62.8	33.8
Private Equity	52.1	2.2%	30.0%	15.6	67.8	36.5
Private Debt	45.2	2.0%	10.0%	4.5	49.7	40.7
Commodities	21.8	0.9%	30.0%	6.6	28.4	15.3
Property – Balanced	182.9	7.9%	13.0%	23.8	206.7	159.2
Infrastructure	261.2	11.3%	12.0%	31.3	292.4	229.8
Corporate Bonds	56.5	2.4%	7.7%	4.4	60.9	52.1
Diversified Credit	41.2	1.8%	12.0%	4.9	46.2	36.3
Fixed Interest Gilts	67.1	2.9%	5.9%	4.0	71.0	63.1
Index-Linked Gilts	36.9	1.6%	10.9%	4.0	40.9	32.9
Overseas bonds	33.2	1.4%	10.4%	3.4	36.7	29.8
Cash	177.5	7.7%	0.8%	1.4	178.8	176
Uncorrelated	**2,316.8**	**100%**	**16.6%**	**383.4**	**2,700.3**	**1,933.4**
Including asset correlations	**2,316.8**		**13.4%**	**309.4**	**2,626.2**	**2,007.4**
Including asset & liability correlations	**2,316.8**		**13.6%**	**315.1**	**2,631.8**	**n/a**

18. Funding arrangements

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

The key elements of the funding policy are:

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

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

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

Employer contributions are made up of two elements:

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

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

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

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

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

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

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

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

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

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

Female	Pensioners	23.7 years	**23.2 years**
	Non-Pensioners	25.5 years	**25.2 years**

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

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

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

As an interim solution to this, responsibility for fully inflation proofing GMPs has been passed to pension schemes for members reaching state pension age between 6 April 2016 and 5 April 2021.The Government recently consulted whether this interim solution should be extended until at least April 2024.

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

The UK Government are also seeking to ensure that that their preferred long term indexation solution will also meet the requirements of equalisation.

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

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

More Information
The Actuary has provided a statement describing the funding arrangements of the Fund during 2020/21. This can be found in Appendix 1 of this report.

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

19. Actuarial Present Value of Promised Retirement Benefits

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

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

	2019/20	2020/21
Present value of promised retirement benefits	(3,025)	**(4,021)**
Fair value of scheme assets (bid value)	2,329	**2,842**
Net liability	(696)	**(1,179)**

The Net Liability has increased by £483m, this being the end result of an £996m increase in the value of Promised Retirement Benefits partially offset by a rise in asset values of £513m. The increase reflects the higher salary and inflation assumptions adopted by the actuary for 2020/21 IAS26 assessments.

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

IAS 19 Assumptions	**2019/20**	**2020/21**
Discount rate	2.30%	**2.00%**
Salary increase rate	2.30%	**3.45%**
Pension increase rate	1.90%	**2.85%**

20. Current Assets

	2019/20	**2020/21**
Short term debtors	£'000	**£'000**
Contributions due – employees	1,530	**1,676**
Contributions due – employers	5,528	**6,046**
Strain contribution (due within 1 year)	-	**22**
Sundry debtors	490	**278**
Prepayments	-	**226**
Total	7,548	**8,248**
Cash balances	8,025	**3,469**
Current assets	15,573	**11,717**

20a. Long term-debtors

	2019/20	**2020/21**
	£'000	**£'000**
Strain on fund contributions due in over 1 year	-	**66**

21. Current Liabilities

	2019/20	**2020/21**
	£'000	**£'000**
Benefits payable	(523)	**(625)**
Transfer values payable (leavers)	-	**(226)**
Sundry creditors	(2,024)	**(1,872)**
Falkirk Council	(909)	**(148)**
Total	(3,456)	**(2,871)**

22. Additional Voluntary Contributions

	2019/20	2020/21
	£'000	**£'000**
Standard Life	2,886	**2,939**
Prudential *	4,371	**5,290**
Total	7,257	**8,229**

AVC contributions of £295k were paid directly to Standard Life (£270k in 2019/20).

*There have been ongoing service issues with the Prudential during the year and they have been unable to provide the Fund with an audited statement at 31/03/21. The Prudential had noted that the audited statement would be available in July/August however at the time of the Fund accounts signing no audited statement has been received. This issue has been raised with the CEO of Prudential and the Pensions Regulator as it is affecting a number of pension funds. Unaudited provisional figures provided to the Fund show AVC contributions of £682k were paid directly to the Prudential in 2020/21 (£1,319k in 2019/20). The Fund understands that the amount paid in the unaudited statement will exclude contributions not yet allocated to members records and so may exclude contributions back to November 2020.

23. Related Party Transactions

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

The Council is the single largest employer of members of the Fund and contributed £26.1m to the Fund in 2020/21 (2019/20: £25.3m).

The Fund uses Council premises and systems, and these costs are charged to the Fund. In 202/21 the Fund incurred a charge of £120k in respect of these costs (£120k in 2019/20). 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 2021 the Fund owed the Council £148k (£0.9m in 2019/20) in respect of invoices processed in the last week of March, but paid in April 2021. The Fund transferred balances to settle these amounts in April after the payment runs.

Governance

Four members of the Pensions Committee - D Balsillie, D Macnaughtan, 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.

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

23a. Key Management Personnel

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

	2019/20	2020/21
	£'000	**£'000**
Short term-benefits	101	103
Post-employment benefits	782	1,007
Total	**883**	**1,110**

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

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

24. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2021 totalled £80.1m (31 March 2020 £102.8m).

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

At 31 March 2021 the Fund is exposed to a contingent liability of £128k (31 March 2020 no liability) related to potential abort costs in respect of Infrastructure projects with the Lothian Pension Fund. Contingent liabilities are not recognised in the net assets statement.

GMP Reconciliation

GMP Reconciliation is a national exercise to reconcile HM Revenue contracted out records with those of pension funds. The cost implications of the exercise are not yet fully known as matching of records between the Fund and HM Revenue is ongoing. Provisional work carried out previously by third party data specialists in estimated that Fund pensions may have been underpaid by £39,700 (i.e., £4,400 annually) for pensioners and by £1,600 (i.e. £170 annually) for dependants. These numbers will be rerun once the remaining data queries have been addressed. This will be in 2021/22.

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

25. Contingent Assets

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

Annual Governance Statement 2020/21

Fund Governance Framework

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

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

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

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

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

Scope of Responsibility

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

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

The Chief Finance Officer is responsible for arranging the proper administration of the financial affairs of the Fund, including the systems of internal control and the

internal audit of the Fund’s control environment so as to provide reasonable assurance on substantive matters such as Funding, Contributions and Pension Payments, Investment Management and Data Security.

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

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

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

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

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

Data Security
The Council’s Information Governance framework exists to enable data to be securely managed. Staff undergo regular training on data security matters. Members are notified of the Fund’s Privacy Notice and Data Sharing Agreements are in place with employers and key service providers. Any new data provision is

subject to a Data Impact Assessment signed off by the Council Information Governance Manager and Technology and Infrastructure Manager.

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

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

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

The Fund maintains a risk register which was reviewed, updated and endorsed at the March 2021 Pensions Committee. Committee has also approved a Fund Assurance Map (as endorsed by the Chartered Institute of Internal Auditors) to categorise, as follows, the various levels of risk controls:

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

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

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

The scale of Fund investments (c. £2.8bn) underlines the importance of a robust control environment being in place for investment managers. The main sources of assurance come from regular engagement with the managers and through annual assurance control reports from each of the managers’ auditors. A similar report is

also provided by the Custodian. Reference to the reports for 2020/21 are set out in the Risk Section of the Annual Report.

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

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

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

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

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

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

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

The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Internal Audit Team, including annual self-assessment and periodic (5 yearly) external assessment of compliance with the Public Sector Internal Audit Standards. A detailed self-assessment against the Standards was undertaken during February 2021. This confirmed continuing compliance with the Standards, and will be subject to independent, external validation as part of a national review process established by the Scottish Local Authorities Chief Internal Auditors' Group.

All Internal Audit reports are issued to the relevant officers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Internal Audit reports are always brought to the attention of the Pensions Committee and Pension Board, and any matters of significance highlighted and commented upon by management. During 2020/21, there were no matters of significance which required to be brought to the attention of the Committee and Board.

Audit Findings and Recommendations
During 2020/21, Internal Audit undertook a review of cash management arrangements and sample tested a variety of transactions relating to pensions administration activities.

The review of cash management arrangements coincided with the adoption of a revised Cash Management Policy agreed by Committee in December 2020.

Internal Audit were able to provide Substantial Assurance in relation to the adequacy and effectiveness of the areas audited. The following recommendation was made in relation cash operations which management have accepted:

	Item	Timescale	Responsible Person	Committee Approval Required	Completion Status
1	The investment limits for existing Fund counterparties should be reviewed and (where necessary) increased.	June 2021	Pensions Manager	Yes	Completed

The recommendation has been made in view of cash being above the limit prescribed in the policy. The main reason for the breach was cash being held to facilitate the bulk transfer payment to be made in respect of the VisitScotland assets being transferred to the Lothian Fund. When payment dates were clarified, the excess cash was removed.

The findings have been reported to the Chief Finance Officer and the Director of Corporate and Housing Services and have been reported to the Pensions Committee and Pension Board during June 2021.

A recommendation in the 2019/20 Internal Audit Report to update the Business Continuity Plan in the light of the Covid-19 experience has been done. Further updates will be considered as and when the pandemic is deemed at an end.

A recommendation in the 2019/20 External Audit Report to ensure that Committee and Board meetings were held timeously, following an interruption as a result of the pandemic, has been addressed through the reconvening of meetings from August 2020.

Covid-19
The outbreak of the Covid-19 pandemic has continued to impact the Fund's control environment throughout 2020/21.

This can be viewed in following terms:

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

Service Delivery
Contingency measures were activated in 2019/20 to protect the wellbeing of staff and to facilitate continuity of service provision with these arrangements becoming the norm over the last 14 months. After the initial emphasis on high priority work streams, such as pension payments and retirement and death benefits, protocols for the authorisation of payments and documents have been agreed with authorised signatories, including the use of e-signing facilities (e.g., AdobeSign). Overall, the arrangements have been generally very effective with the Fund effecting business as usual.

Asset Valuations and Funding
The pandemic has led to a dramatic curtailment of economic activity in certain sectors. Having experienced sharp falls and extreme volatility at the start of 2020/21, most markets recovered with the vaccine development and roll out.

The Fund continues to be cash flow positive, so is under no obligation to sell any of its assets. The assets themselves are well diversified and include Property, Bonds and Infrastructure which are income generative. Allied to this, the majority of Fund sponsors have revenue raising powers or Government backing.

The results of the 2020 actuarial valuation and 2021 funding update indicate that the Fund is in a good financial condition with an ongoing ability to pay benefits as they fall due. Analysis undertaken in 2019/20 and 2020/21 for External Audit purposes also demonstrates that the Fund is more than likely to be able to meet its immediate going concern obligations.

The 2020 Valuation exercise has afforded the opportunity for each employer's position in the Fund to be closely and independently examined and appropriate contribution rates applied.
The Fund's solvency is considered on a regular basis by officers, the Fund Actuary and the Joint Investment Strategy Panel (JISP).

Oversight
The Government's "lockdown" instructions meant that the March and June 2020 Committee and Board meetings were cancelled. Meeting papers were made available through the Council Coins system and supplementary reports from investment managers continued to be posted to the shared portal used by Committee and Board members. A briefing paper from the Chief Finance Officer and Pensions Manager was issued to members at the beginning of May 2020.

Online Committee and Board meetings recommenced in August 2020 and have continued as originally scheduled in online mode. Management accepted the comments from both Audit and the Board that full meetings should have been capable of taking place sooner than the August date.

Long Term Consequences
The longevity of pandemic makes it difficult judge what a return to normal will consist of. Working in a more mobile and flexible manner will certainly be a feature with the Pensions staff scheduled to move later in 2021 to premises designed for that outcome. In the interim, staff have been equipped with laptops and there is a project underway to convert remaining paper records to electronic images. The shift from paper will require some re-engineering of business processes. The challenges of the pandemic have again raised the question of the resilience of the Fund and supports the ongoing dialogue with the Lothian Fund on closer collaboration.

Certification
This Annual Governance Statement summarises, openly and transparently, arrangements made by Falkirk Council Pension Fund for 2020/21 and for the period to the date of publication of these Accounts.

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

Where areas for improvement have been identified, an action plan has been agreed and will be prioritised by management and reviewed in due course by the

Pensions Committee and Pension Board. The Fund will continue to monitor and evolve its governance arrangements as necessary.

It is our view that the contents of the statement demonstrate the adequacy and effectiveness of the governance arrangements in place during 2020/21 for the Pension Fund.

Councillor Adanna McCue
Chair of the Pensions Committee

Kenneth Lawrie
Chief Executive Falkirk Council

Governance Compliance statement

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

Principle A – Structure

Requirement		Level of Compliance	Arrangements in Place
(a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	**Full Compliance**	Falkirk Council, as administering authority of the Fund, has established a Pensions Committee to which it has delegated the administration of benefits and strategic management of fund assets. The implementation of investment strategy has been delegated to the Chief Finance Officer subject to proper advice being provided by a Joint Investment Strategy Panel comprising specialist officers and independent advisers.
(b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to	**Full Compliance**	The Pensions Committee includes three co-opted members reflecting the Fund's composition of members, pensioners and employers.

	underpin the work of the main committee		
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	**Full Compliance**	The main channel of communication between the Pensions Committee and Board lies in the fact that quarterly Committee meetings are joint meetings with the Board, with a shared agenda and with both parties having full access to papers.
(d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Not Compliant** (as no longer relevant)	The statutory role of the Pension Board with oversight of Committee activity means it is not appropriate for a Board member to also sit on the Committee.

Principle B – Representation

Requirement	Level of Compliance	Arrangements in Place
(a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
(i) Employing authorities (including e.g. admission bodies);	**Full Compliance**	Representatives of fund employers, including an admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee
(ii) Scheme members (including deferred and pensioner scheme members);	**Full Compliance**	Active, deferred and pensioner members are represented by Trade Union members who sit on the Pension Board. A Trade Union member also sits on the Pensions Committee. Pensioners are represented by a pensioner member who sits on the Committee.
(iii) Where appropriate, independent professional observers; and	**Not Compliant**	There are no independent professional observers of Committee or Board business. It is considered that: • the diversity of representation (employers, pensioner and Unions) • the Joint Investment Strategy Panel • the training arrangements; • the annual audit process; and • attendance of professional advisors

			provide robust and adequate scrutiny of pension fund business
	(iv) Expert advisors (on an ad-hoc basis).	**Full Compliance**	Support for the Pensions Committee and Pension Board is provided by specialists in the following areas: • actuarial and investment advisers • corporate governance advisers • investment managers and custodian
(b)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Full Compliance**	The co-opted members on the Pensions Committee and the Pension Board all have equality of access to papers, meetings and training. The co-opted members also have full opportunity to contribute to the decision making process, including the right to vote.

Principle C – Selection and role of lay members

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

Principle D – Voting

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

Principle E – Training / Facility Time / Expenses

	Requirement	Level of Compliance	Arrangements in Place
(a)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**Full Compliance**	The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pension Board members. Training is delivered in large part by addressing specific items at Committee and Board meetings and complemented by visits to Fund Managers, bespoke training events and attendance at industry seminars and conferences. Expenses incurred by Committee and Board members are met either by the Fund or the Falkirk Council scheme for payment of members' expenses.
(b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Full Compliance**	The Training Policy for the Pensions Committee and Pension Board applies uniformly to all members.
(c)	That the administering authority considers the adoption of annual training plans for committee	**Full Compliance**	The Training Policy for the Pensions Committee and Pensions Board includes the requirement for members to undergo training

	members and maintains a log of all such training undertaken.		needs analysis and the development of commensurate training plans. A register of training undertaken is maintained.

Principle F – Meetings (Frequency/Quorum)

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

*Pensions Committee and Board meeting scheduled for June 2020 was cancelled due to Covid-19 and reconvened in August 2020.

Principle G – Access

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

Principle H – Scope

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

Principle I – Publicity

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

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

Appendix 1

Actuarial Statement for 2020/21

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

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

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

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

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report (see link in Appendix 3).

Method

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

Assumptions

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

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

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

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

	Males	Females
Current Pensioners	20.6 years	23.2 years
Future Pensioners*	22.0 years	25.2 years

*Currently aged 45

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

Experience over the period since 31 March 2020

Markets were severely disrupted by Covid-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but have recovered strongly in 2020/21. Although the value placed of the obligations will also have increased due to changes in underlying market conditions, the funding level of the Fund as at 31 March 2021 is likely to be significantly improved compared to that reported as at 31 March 2020.

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

Julie West FFA

For and on behalf of Hymans Robertson LLP
30 April 2021

Appendix 2

Scheduled and Admission Bodies as at 31 March 2021

Scheduled bodies open to new members

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

Admission bodies

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

*No Fund liability remains with the employers in this group. Either a cessation payment has been made, an exit credit returned or the three Councils in the Fund - Clackmannanshire, Falkirk, and Stirling Councils - have assumed responsibility for

the Fund liabilities of these employers in return for being allocated their share of the Fund's assets.

VisitScotland (Ex-Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board) which was a scheduled body closed to new members having transferred all their membership from the various Scottish Funds to Lothian Pension Fund during 2020/21. No assets or liabilities now remain with the Falkirk Fund.

Appendix 3

Links to the documents

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

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

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

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

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