Agenda Item 7

Unaudited Annual Report and Accounts 2018/19

Agenda Item 7

Falkirk Council

Subject: **Unaudited Annual Report and Accounts 2018/19**

Meeting: **Joint Meeting of Pensions Committee and Pension Board**

Date: **27 June 2019**

Submitted by: **Director of Corporate and Housing Services**

1. Purpose of Report

1.1 This report presents the following documents to the Pensions Committee for consideration:

- the Unaudited Fund Annual Report and Accounts 2018/19; and
- the Fund Annual Governance Statement

1.2 The Unaudited Annual Report and Accounts and Annual Governance Statement have been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014 and other statutory guidance.

1.3 The Annual Report has been prepared in accordance with the revised CIPFA guidance "Preparing the Annual Report – Guidance for Local Government Pension Scheme Funds 2018" issued in April 2019.

2. Recommendations

2.1 The Pensions Committee is asked to consider the Unaudited Annual Report and Accounts 2018/19 of the Falkirk Council Pension Fund.

2.2 The Pensions Committee is asked to approve the Fund Annual Governance Statement.

2.3 The Pensions Committee and Pension Board are invited to comment on the Unaudited Accounts and Annual Report and the Annual Governance Statement.

3. Background

3.1 Local Authority Pension Funds are required to publish financial statements that are separate from those of its Administering Authority (i.e. in this case separate from Falkirk Council's accounts).

3.2 The financial statements must include a Fund Account and a Net Assets Statement prepared in accordance with proper accounting practices.

3.3 The accounts must:

- be submitted for audit no later than 30 June after the financial year end;
- be published for public inspection;
- be considered no later than 31 August by a Committee whose remit includes audit or governance; and
- include an annual governance statement in respect of the systems of internal control in operation.

3.4 Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2018 also requires that the Fund produces an Annual Report, which includes information regarding the management and financial performance of the Fund in the past year.

4. Annual Report and Accounts - Process

4.1 In accordance with the statutory requirements, the Unaudited Annual Report and Accounts for 2018/19 will be:

- made available for public inspection;
- submitted to the Fund's External Auditors by 30 June; and
- published on the Fund's website.

4.2 A copy of the Annual Report and Accounts is attached as an Appendix to this report.

4.3 The Annual Governance Statement is included within the Annual Report and Accounts at Page 81. The Statement refers to internal audit work undertaken during 2018/19 and outlined in the earlier report to this meeting.

4.4 The Audited Annual Report and Accounts will be presented for approval at the joint meeting of the Committee and Board on 26 September 2019.

5. Annual Report and Accounts 2017/18 – Key Points

5.1 Committee and Board members may wish to note the following points from the Annual Report and Accounts 2018/19:

Page	Comment
P8	Administration costs were **£22.41** per member (£22.32 in 18/19)
P16	**25** Freedom of Information requests were answered (23 in 17/18)
P19	Assets were **£2.5bn** (£2.3bn in 17/18)
P19	Liabilities were **£2.7bn** (£2.5bn in 17/18)
P19	Funding level was **92%** (91% at 31/3/2018)
P19	Funding Deficit was **£218m** (£228m at 31/3/2018)
P26	Scheme membership was **34,635** (33,560 in 17/18)
P37	1 year return was **8.5%** against a benchmark of 6.8**%**
P37	Annualised 5 year return was **9.1%** against a benchmark of 7.8%
P45	Votes were cast on **1,915** motions at **130** company meetings
P55	Contributions of **£87m** were paid in (£80m in 17/18)
P55	Benefits of **£73m** were paid out (£69m in 17/18))

P63	Employee contributions were **£19m** against **£66m** paid by employers
P64	Direct investment management expenses of **£11m** (£10m in 17/18)

5.2 Within the Annual Report, the Management Commentary summaries key activities undertaken during 2018/19 including the response to regulatory changes, strategic investment work, employer initiatives, risk management and the increased focus on data security and data quality.

5.3 The section on Financial Performance outlines how the Fund has performed against budget – an underspend of £700k arising mainly from lower than expected investment management costs. The section also highlights that the Fund's declining cashflow position has been halted temporarily by the increased employer contributions being made in 2018/19 following the 2017 valuation.

5.4 Note 25 of the Accounts (Contingent Liabilities and Contractual Commitments) makes reference to the McCloud v Ministry of Justice case which has potential to increase Fund liabilities depending on the outcome of the legal process. At the time of writing, the Fund actuary is undertaking calculations to try to quantify the extent of any additional costs. More information on McCloud is provided in the General Governance Report tabled later on the meeting agenda.

6. Annual Governance Statement

6.1 The Annual Report and Accounts must include an annual governance statement in respect of the systems of internal control and the statement has to be considered and approved by an appropriate Committee.

6.2 The Falkirk Fund's Annual Governance Statement focuses on the internal controls in place to ensure that:

- effective governance arrangements exist;
- funding arrangements are adequate;
- safeguards are in place to monitor investment manager activity;
- payments are made correctly to scheme beneficiaries; and
- data is securely held.

6.3 The annual review of the Fund's internal systems has been supported by the work of the internal audit team. As mentioned in paragraph 4.3, details of internal audit testing in respect of 2018/19 (and the proposed audit plan for 2019/20) are being reported at today's meeting.

6.4 Legislation also requires the efficiency and effectiveness of the internal audit function to be assessed from time to time and reported upon as part of the consideration of internal controls. This includes annual self-assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. Self assessments have confirmed broad compliance, with the most recent being independently verified via a peer review undertaken by the Scottish Prison Service's Head of Audit and Assurance in May 2018.

7. Implications

Financial

7.1 The financial standing of the pension fund as reflected in the annual accounts from year to year impacts on the level of contributions that employers are required to pay into the Fund.

Resources

7.2 There are no major administrative resources associated with the report recommendations. The additional time of senior officers has been required to re-configure the Annual Report in line with the recently issued CIPFA guidance note.

Legal

7.3 There is a statutory requirement for the Pension Fund to produce an annual report and accounts separate from those of the Administering Authority and for the Fund to have its annual report and accounts separately audited.

Risk

7.4 Failure to complete the accounting and audit process satisfactorily would be a non-compliance issue and would undermine the confidence of stakeholders in the sound financial management of the Fund.

Equalities

7.5 There are no equality issues arising from this report.

Sustainability/Environmental Impact

7.6 There are no sustainability/environmental issues arising from this report.

8. Conclusion

8.1 Consistent with the timetable for publication of accounts, the unaudited pension fund annual report and accounts are presented to Committee and Board for consideration and oversight.

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Director of Corporate & Housing Services

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Date: 05 June 2019

Appendices

Appendix 1 – Unaudited Annual Report and Accounts 2018/19

List of Background Papers:

None

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

Falkirk Council

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Introduction to the Pension Fund Accounts

Foreword from the Chair of the Pensions Committee

As Chair of the Pensions Committee with responsibility for overseeing the investment management and administration of the Falkirk Council Pension Fund, I am pleased to introduce the 2018/19 Annual Report and Statement of Accounts.

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

As the business community has looked on with increasing concern, financial markets have learned to live with the uncertainty and UK markets ended the financial year only slightly down from their starting levels. Instead, it was concern around US/Chinese Trade wars and a possible US recession which had the greater impact on markets with sharp falls being experienced in the last quarter of 2018. Whilst markets have since recovered some of the lost ground, it was a timely reminder that the road to improved funding levels is rarely a smooth one and a policy of investing prudently in a broad range of asset classes, including equities, bonds, property and infrastructure is a good insurance against the market volatility which comes with political and economic uncertainty.

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

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

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

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

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

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

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

Councillor Adanna McCue
Chair of the Pensions Committee

Statement from the Chair of the Pension Board

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

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

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

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

Susan Crook
Chair of the Pension Board

Contact Us

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E-mail:	pensions@falkirk.gov.uk

General enquiries about pension benefits:	Falkirk Council Pension Fund
Tel:	01324 506329
Fax:	01324 506363
E-mail:	pensions@falkirk.gov.uk
Post:	Pensions Section PO Box 14882 Falkirk Council Municipal Buildings Falkirk FK1 5ZF

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

General Enquiries:	01324 506329
Retirement/Death Enquiries:	01324 506325
Strategic and Policy matters:	01324 506333
Accounting and Investment matters:	01324 506338
Projects and Systems:	01324 506337
Opening hours:	Monday to Friday, 9.00am – 5.00pm
Websites:	www.falkirkpensionfund.org www.scotlgps2015.org
Email:	pensions@falkirk.gov.uk investments@falkirk.gov.uk

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

Introduction to the Pension Fund Accounts

Management of the Fund

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

Investment Managers

Aberdeen Standard Investments	AberdeenStandard Investments
Barings	BARINGS
Baillie Gifford	BAILLIE GIFFORD
FIM Services Ltd	FIM Services Limited
Harbert Management Corporation	HMC Harbert Management Corporation
M&G Investments	M&G INVESTMENTS
KKR	KKR Kohlberg Kravis Roberts
Ancala Partners	ANCALA
Blackrock	BLACKROCK
Dalmore Capital	DALMORE CAPITAL
UBS/Greensands	Greensands

Hearthstone Investments	
Newton Investment Management	
Wilshire Associates	
Alcentra	
Brookfield	
Equitix Investment Management Ltd	
GCM Grosvenor	
InfraRed Capital Partners	
Legal & General Investment Management	
Schroders Investment Management	

Introduction to the Pension Fund Accounts

Annual Report and Accounts

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

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

Performance Headlines

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

* Costs per member updated for 2016/17 and 2017/18 to reflect the inclusion of undecided leavers in the total membership
# Further information about Total Costs can be found in Notes 11 and 11a on page 64

About the Falkirk Fund

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

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

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

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

The larger Fund employers are Clackmannanshire, Falkirk and Stirling Councils, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA) and Scottish Autism. Other employers include several non-profit making charitable bodies located in Central Scotland, as well as two contractors (Amey and Forth & Oban Ltd) to whom school facilities maintenance has been transferred. A full list of Fund employers is given in Appendix 2 on page 90.

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

Introduction to the Pension Fund Accounts

About the Local Government Pension Scheme (LGPS)

- The LGPS is a nationwide pension arrangement for persons working in local government and is one of the largest schemes in the UK with over 4 million members.

- Local Authorities and certain other public bodies are required by law to operate the Scheme. Other organisations such as charities, non-profit making entities and contractors may apply to join the Scheme.

- The LGPS (Scotland) is the version of the Scheme which applies to local authorities in Scotland. Other versions apply in England and Wales and in Northern Ireland.

- The Scheme consists of around 100 regional pension funds across the UK – one of which is the Falkirk Council Pension Fund.

- The LGPS is a funded scheme, which means monies are being set aside to pay for benefits as they fall due, thus helping to reduce the costs falling on future generations.

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

- For more information about LGPS (Scotland), please visit www.falkirkpensionfund.org or www.scotlgps2015.org.

Management Commentary

Overview

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

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

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

Business Model

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

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

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

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

Membership and Benefits Administration is undertaken internally by the Council's Pensions Section. For more detailed information on this activity, turn to the Scheme Administration Section on page 24.

Investment Management of the Fund's assets is undertaken by a range of investment managers who have been appointed by the Pensions Committee on the basis of external advice. Under revised governance arrangements, the Committee now sets the investment strategy but delegates its implementation to the Chief Finance Officer who in turn receives advice from a Joint Investment Strategy Panel (JISP). More Information about the Fund's investment management arrangements is given on page 32.

Governance and Risk Management is the responsibility of the Pensions Committee to whom Fund business has been delegated by Falkirk Council. This includes the setting of funding and investment policy. The Committee is supported by a Pension Board to ensure that its decisions are made within the terms of the Scheme rules and in accordance with good practice. More information on Fund Governance can be found on page 13. Information on Risk Management can be found on page 46.

Funding is dealt with internally by the Pensions Section with the assistance of Hymans Robertson, the Fund Actuary.

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

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

Consultation into Scheme Structure

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

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

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

Structure Review – Consultation Responses | LGPSAB

Scheme Changes

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

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

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

Governance and Risk

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

Paying for Benefits

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

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

More information on the Fund's Funding arrangements can be found in the Note 19 on page 76.

Investment Policy

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

More information on the Investment Policy and Investment Performance can be found on pages 32 and 37.

Small Admission Bodies Initiative

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

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

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

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

General Data Protection Regulations

The General Data Protection Regulations were introduced with effect from 25 May 2018. In recognition of the new regulations and the imperativeness of safeguarding personal data, we concluded data sharing protocols with all Fund employers and our main service providers. In addition, we revised our Privacy Notice (uploaded to our website) and have increased mandatory Data Protection training to all staff.

Data Quality Standards

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

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

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

GMP Reconciliation

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

Remuneration Report

There is no need for the Pension Fund to produce a remuneration report, as the Fund does not directly employ any staff. All staff are employed by Falkirk Council, and their costs are charged directly to the Fund. Details of the remuneration of key management personnel can be found at Note 24a on page 79.

Outlook for 2019/20

Whilst the uncertainty created by the review into Fund structure is not an ideal scenario in which to map out future business requirements, we will nonetheless be working purposefully with employers and members to improve stakeholders' experiences of interacting with us. We will look to do this by increasing the number of posts within the Pensions team and by using the opportunities provided by new technology. We also look forward to working more closely with the Fife and Lothian Pension Funds in taking forward the outcomes of our review of investment strategy.

Convener of the Pensions Committee **Date**

Chief Executive of Falkirk Council **Date**

Chief Finance Officer of Falkirk Council **Date**

Fund Governance

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

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

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

Annual Governance Statement
The Local Authority Accounts (Scotland) Regulations 2014 require that:
- Councils conduct an annual review into the effectiveness of the systems of internal control; and that
- an Annual Governance Statement is included in the Annual Accounts.

The Annual Governance Statement in respect of 2018/19 is set out in full on page 81.

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

The Fund's Governance Compliance Statement is set out in full on page 84.

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

The Committee consists of nine members – six elected members from Falkirk Council and three members representing employer, employee and pensioner interests. The three co-opted members have full voting rights and full access to papers. The Committee normally meets on a quarterly basis with meetings being held mostly in public session. During 2018/19, the Committee held five meetings, all of which were joint meetings with the Pension Board. (An additional meeting over and above the normal quarterly cycle of meetings was held to discuss the structural review of the Local Government Pension Scheme in Scotland).

Members of the Committee are as follows:

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

The pensioner representative, Mr Ian McLean, stood down towards the end of the 2018/19 session. The selection process for a replacement is underway.

The Committee's key responsibilities are:
- to oversee the administration of the Fund
- to establish and review investment policy
- to set the strategic asset allocation
- to monitor the implementation of investment strategy

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

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

Pension Board

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

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

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

Board Members during 2018/19 were as follows:

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

Details of Committee and Board members who are also members of the Scheme is given on page 79.

Attendance at Committee and Board meetings

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

	Committee and Board Meetings 2018/19				
Pensions Committee	**21/06/2019**	**23/08/2019**	**20/09/2018**	**06/12/2018**	**21/03/2019**
Adanna McCue (Convener)	✓	✓	✓	✓	✓
Donald Balsillie			✓	✓	
James Blackwood	✓	✓	✓	✓	✓
Billy Buchanan		✓	✓		✓
Niall Coleman	✓	✓		✓	✓
Andy Douglas		✓		✓	
Ian McLean	✓	✓	✓	✓	
John Patrick	✓	✓	✓	✓	
Pat Reid	✓	✓	✓	✓	
Pension Board					
Susan Crook (Chair) (U)	✓	✓	✓	✓	✓
Sandy Harrower (U)	✓	✓		✓	✓
Gordon Irvine (U)	✓				
Tommy Murphy (U)	✓	✓	✓		
Margaret Brisley (E)					
Simon Hunt (E)	✓	✓	✓	✓	
Ed Morrison (E)		✓		✓	
Jennifer Welsh (E)		✓	✓	✓	

U = Trade Union nominee E = Employer nominee

Training for those with Governance Responsibilities

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

Training is provided through a variety of means, including:

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

During 2018/19, training events have included:

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

Fund Governance

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

Training arrangements for 2019/20 will continue to be broadly based in order to support member decision making.

Conflict of interests

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

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

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

Freedom of Information, Accountability and Transparency

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

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

During 2018/19, the Fund responded to 25 Freedom of Information requests, the majority of which related to the composition of the Fund's assets.

Documentation

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

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

More Information

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

Funding Strategy Update

Overview

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

The key objectives of the strategy are:

- for the Fund to be fully funded (i.e. assets held are 100% of liabilities)
- for any deficit to be repaired over a maximum period of 20 years
- for the Fund to have sufficient cash to pay member benefits as they fall due
- for employer contributions to be stable and affordable

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

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

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

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

The strategy requires that there should be a 75% or more chance of an employer being fully funded at the end of the time horizon.

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

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

Actuarial Update

Overview

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

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

Valuation as at 31 March 2017

The 2017 valuation showed that the Fund was 92% funded, meaning that it had 92% of the monies needed to pay the benefits of scheme members based on the rights they had accumulated to 31 March 2017. The key results in comparison with the 2014 valuation results were as follows:

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

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

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

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

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

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

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

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

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

	2014 Valuation	2017 Valuation
Price Inflation	2.7%	**2.4%**
Salary Inflation	4.0%	**2.9%**

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

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

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

Current Funding Position

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

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

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

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

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

Actuarial Update

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

An actuarial statement prepared by the Fund Actuary in respect of 2018/19 can be viewed at Appendix 1 on page 88.

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

Financial Performance

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

Annual Budget

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

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

A summary of the actual and budgeted expenditure for 2018/19, together with the approved budget for 2019/20, is shown in the table below. More information about Fund costs are given in Notes 11 and 11a on page 64.

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

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

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

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

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

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

Contributions made to the Fund in 2018/19

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

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

Financial Performance

Water Industry Commission	94	317
Total Admitted Bodies	**2,119**	**7,849**
Fund total	**18,720**	**68,157**

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

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

Cashflow

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

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

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

Pension Payments and the National Fraud Initiative

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

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

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

Conclusion

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

Scheme Administration

About this Section

This Section of the Annual Report contains:

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

Key Performance Indicators 2018/19

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

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

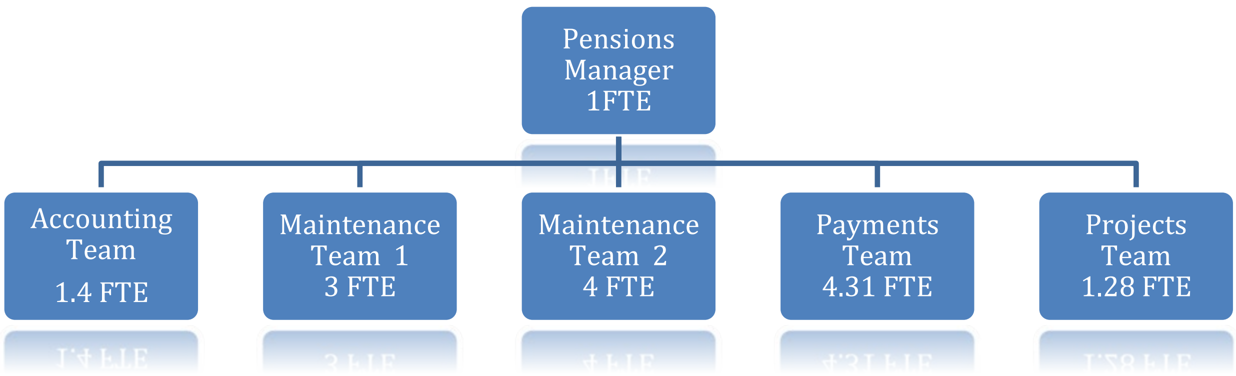
* Number impacted by post August year end data submission from a Scheduled Body

How the Administration Service is organised and delivered

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

Staffing

The Section has 16.5 budgeted full-time equivalent posts (including vacancies) and is headed by the Pensions Manager, who reports directly to the Chief Finance Officer. In addition to benefits administration, staff members undertake governance, accounting and investment related activities. In 2018-19 the Section was made up as follows:



Record Maintenance

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

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

Scheme Administration

Systems

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

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

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

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

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

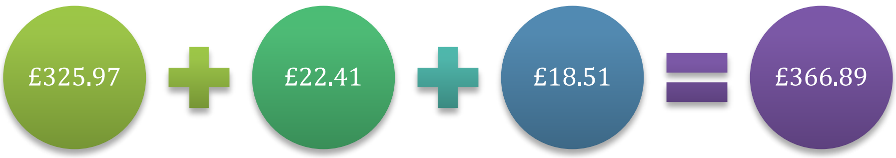
Value for Money Statement

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

The Fund strives to deliver value for money by monitoring:

- costs against budget (see page 21)
- year on year total and unit costs (see table below)
- performance statistics (see page 30)
- success in completing key activities (see page 24)

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



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

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

* Membership numbers updated for inclusion of undecided leavers

Investment Cost Benchmarking

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

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

Investment Cost Transparency

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

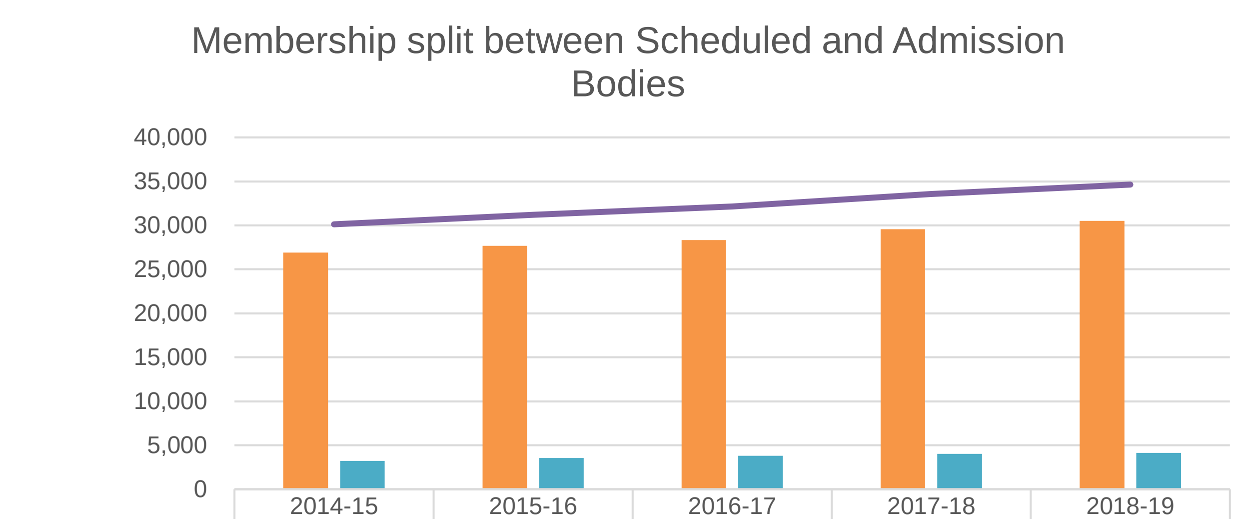
Administration Cost Benchmarking

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

Membership Information

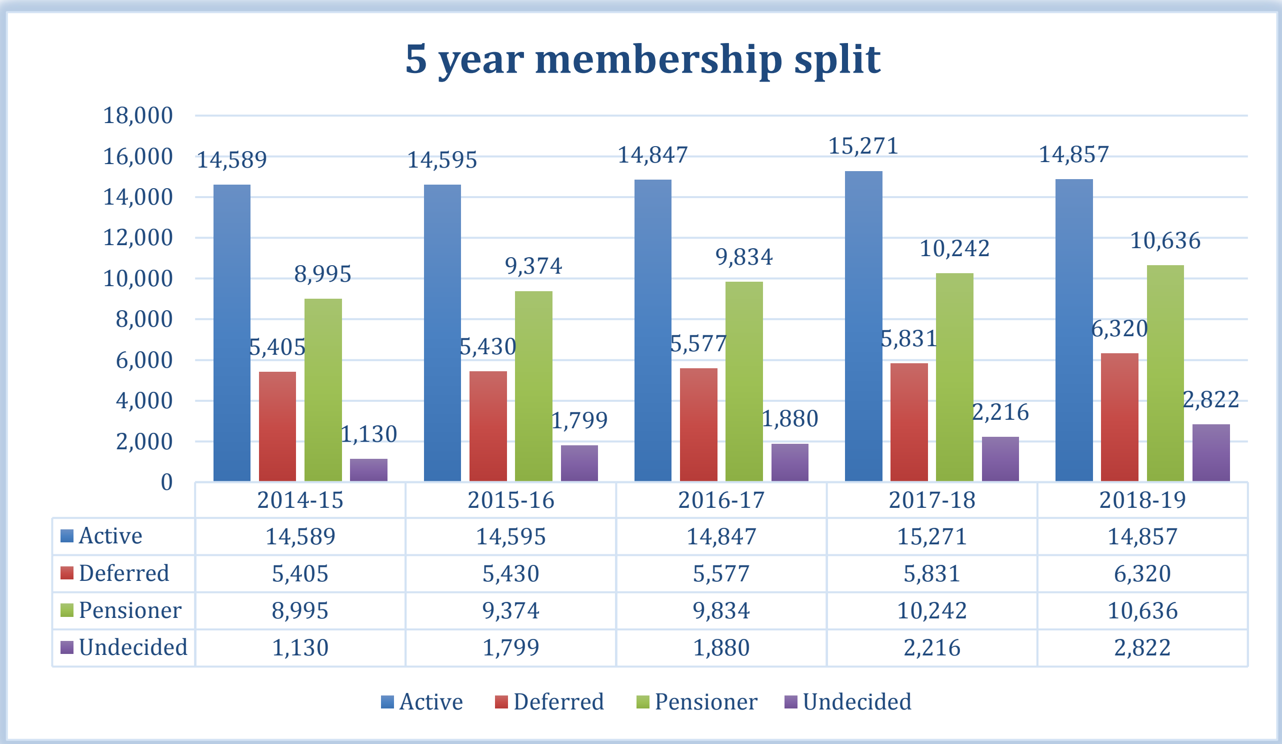
Fund membership numbers are most commonly impacted by persons joining or leaving the Scheme as part of normal staff turnover. From time to time, however, there can be more significant membership movements resulting from factors such as recruitment freezes, workforce reshaping, staff transfers, and Government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

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



	2014-15	2015-16	2016-17	2017-18	2018-19
Scheduled	26,895	27,660	28,325	29,553	30,494
Admission	3,224	3,538	3,813	4,007	4,141
Total	30,119	31,198	32,138	33,560	34,635

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



	2014-15	2015-16	2016-17	2017-18	2018-19
Active	14,589	14,595	14,847	15,271	14,857
Deferred	5,405	5,430	5,577	5,831	6,320
Pensioner	8,995	9,374	9,834	10,242	10,636
Undecided	1,130	1,799	1,880	2,216	2,822

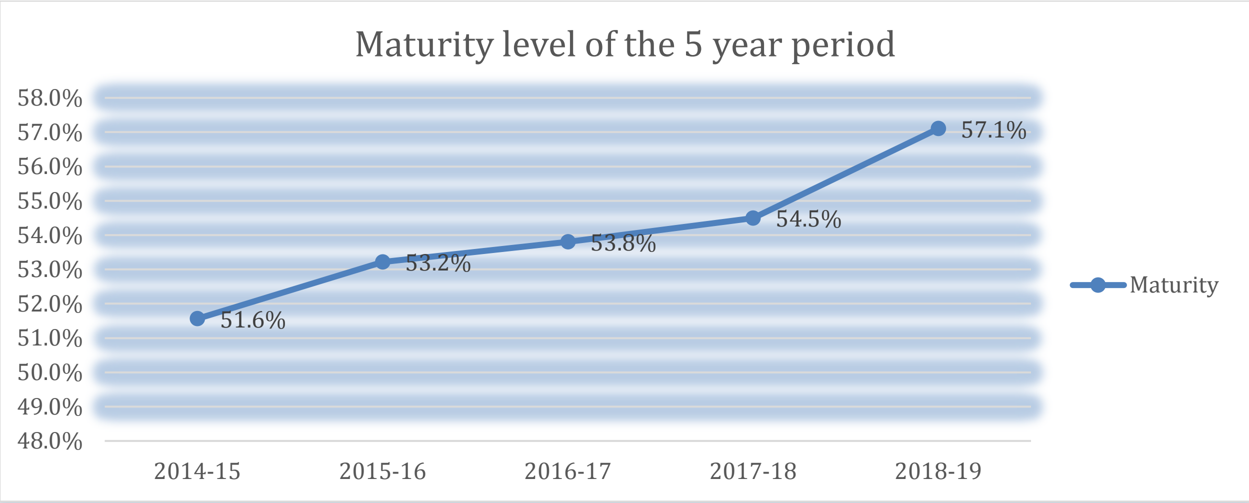
The chart shows that during 2018/19, active membership has declined and that deferred and pensioner membership has increased. This is primarily due to Council recruitment restrictions limiting the number of new members and early retirement initiatives boosting leaver numbers. A further trend is the increase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

The increasing numbers of pensioner and deferred members confirms the gradual maturation of the Fund and is broadly consistent with the profile of the Fund's cashflow as demonstrated on page 23.

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

Scheme Administration

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



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

Analysis of Scheduled and Admission Bodies

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

Type of Employer	Open	Closed	Total
Scheduled Bodies	9	1	10
Admitted Bodies	12	16	28
Totals	**21**	**17**	**38**

A full list of Fund employers can be found at Appendix 2 on Page 90.

Analysis of New Pensioners during 2018/19

Retirement Type	Total
Normal Retirement	223
Efficiency/Redundancy	53
Other Early	244
Ill Health Retirements	42
Total	562

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

Administration Activity and Performance

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

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

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

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

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

Internal Disputes Resolution Procedure

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

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

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

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

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

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

Performance Information

Performance Indicator – Volume and Completion Rate

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

*excludes retirements from deferred status

Performance Indicator – Timescales

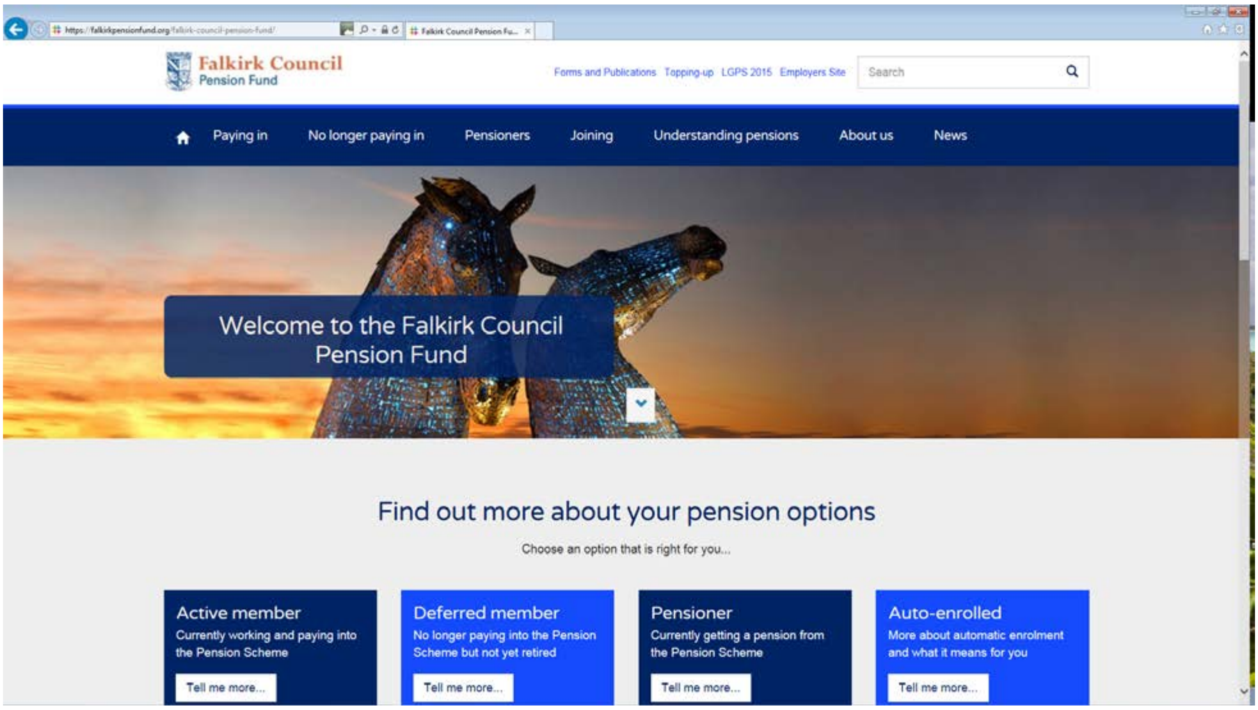
	Cases Completed	KPI	Cases Completed	% Completed
Joiners	720	21 days from being advised	448	62%
Estimate Requests	649	1 month	326	50%
Retirements Lump Sums Paid	382	15 days from all information being received	358	94%
Other Transactions	11,898	1 month	8,590	72%

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

Communications

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

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



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

Outlook

Regulatory Changes

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

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

Staffing Developments

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

Relationship with Lothian and Fife Pension Funds

The Fund expects to be working closely with the Lothian and Fife Funds in the coming year and further explore collaborative opportunities.

Investment Policy

Overview

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

This Section of the Annual Report looks at:

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

The Fund's approach to environmental, social and corporate governance issues is set out in the Section starting on page 42.

Statement of Investment Principles

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

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

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

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

Investment Management Arrangements

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

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

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

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

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

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

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

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

Investment Strategy

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

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

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

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

This alignment between the Funds will facilitate future collaborative working.

A feature of the revised strategy is that assets are categorised into five Policy Groups, with each group having its own return target. Taking the groups together will enable the funding objective to be met. The Policy Groups are considered to be the key determinants of risk and return for the Fund and thus have been the focus of attention during the strategic review.

Establishment of Policy Groups

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

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

Target Allocation to Policy Groups

Policy Group	Strategic Allocation	Long Term Expected Return
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%**

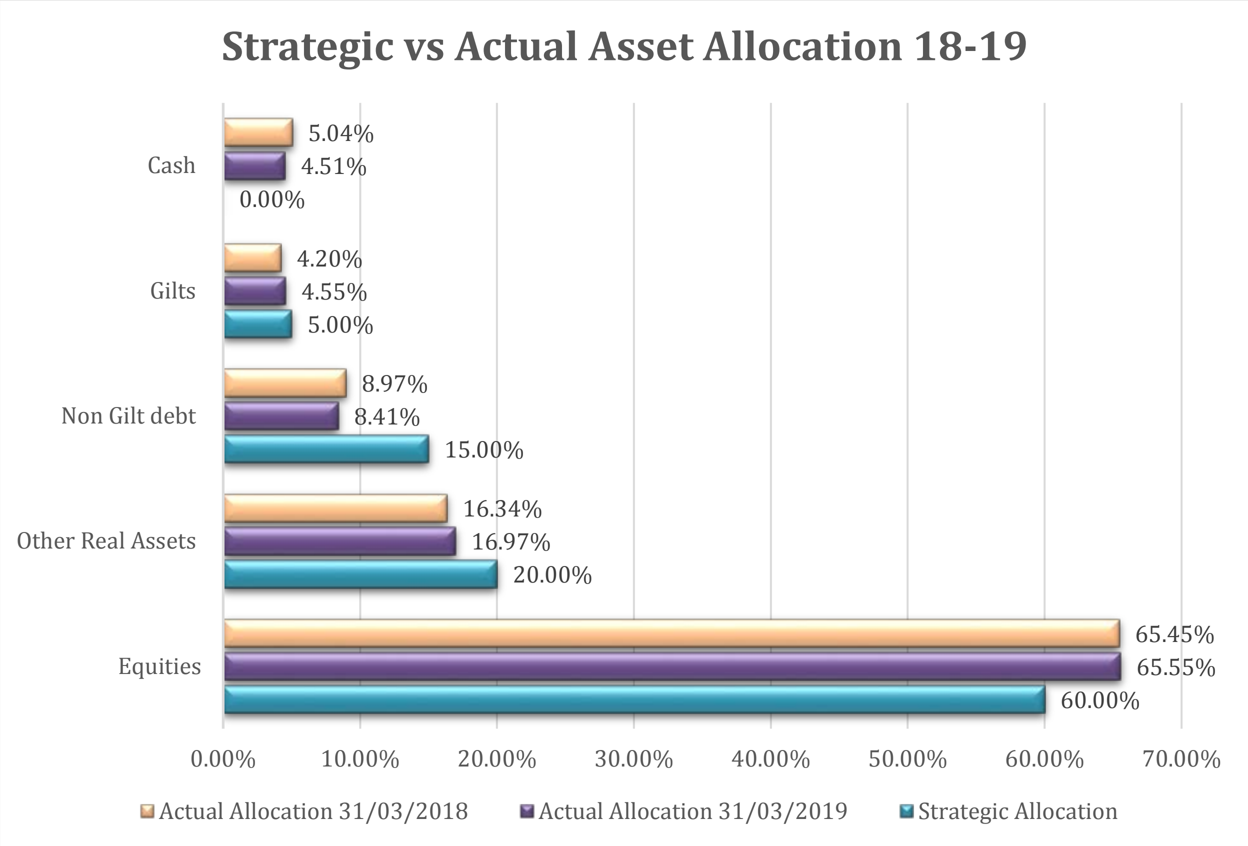
To avoid unnecessary and costly re-balancing, the Committee have agreed that the level of assets held in each policy group may sit with a prescribed range, as follows:

Tolerances around Strategic Allocation

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



The Fund's actual Policy Group holdings against the strategic weightings are reviewed on a quarterly basis by the Joint Investment Strategy Panel and then reported to the Pensions Committee. The actual allocation at 31/03/2019 is at variance with the strategic allocation but within the permitted limits. Both Panel and Committee are content with this position noting in particular that the allocation to Other Real Assets (e.g. Infrastructure) and Non Gilt Debt (e.g. Private Debt) depends on the availability of suitable investments from a risk and return perspective. A significant level of Cash is being held pending new investment opportunities in these areas and also as a defensive measure in the light of the unattractive returns from gilts and other bonds. The cash holdings are split between the Custodian Bank Northern Trust and various financial institutions. Further details can be found in the Note 18, page 73.

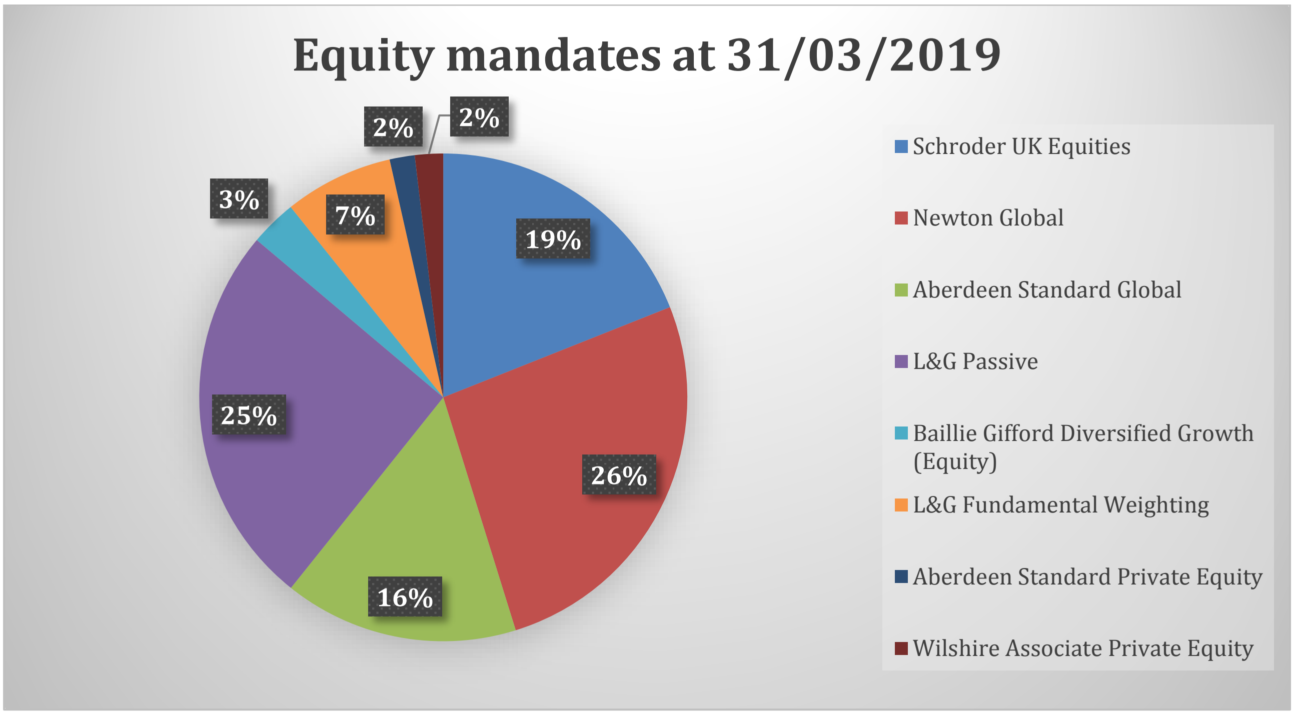
Investment Mandates and Managers

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

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

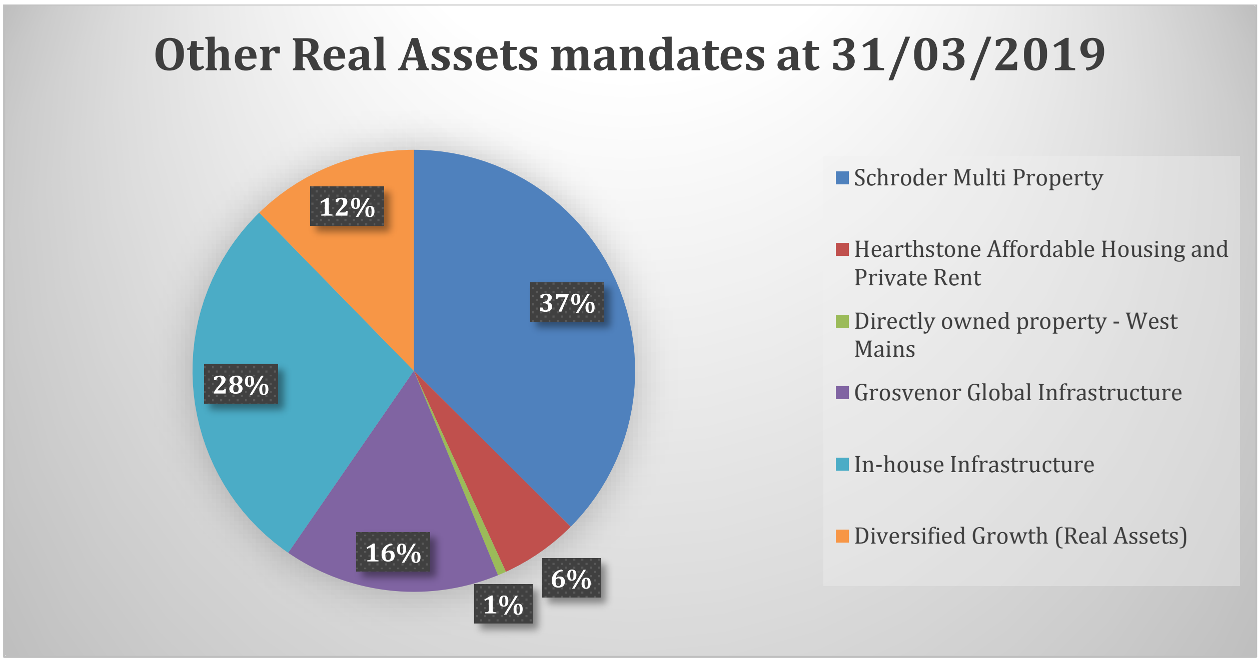
Equities

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



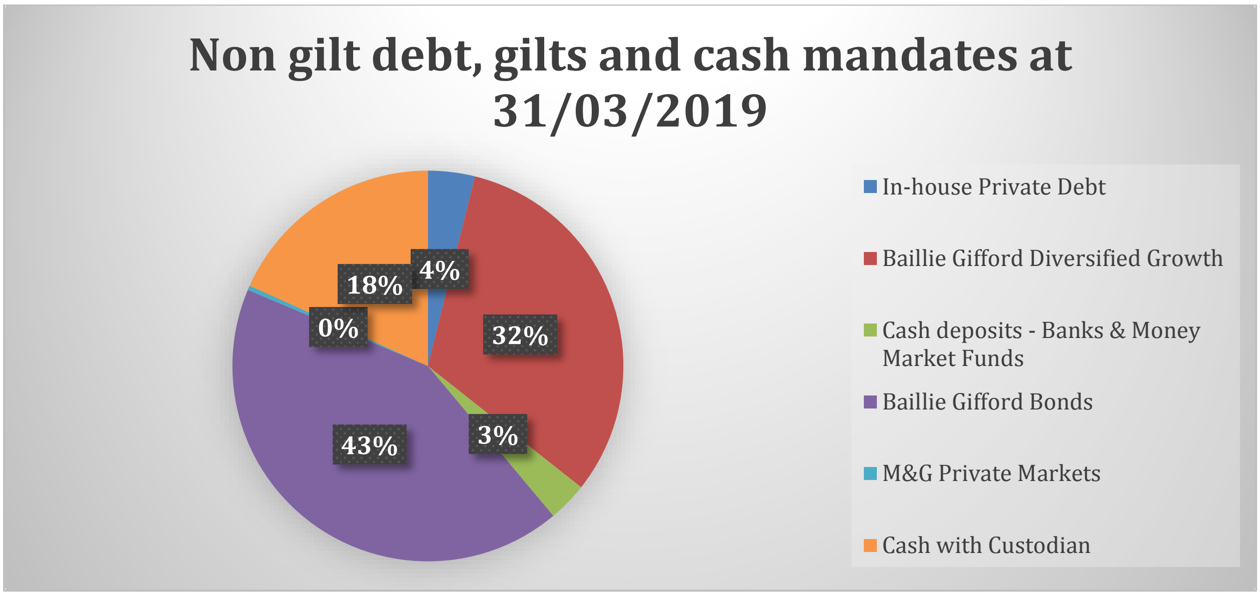
Other Real Assets

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



Non Gilt Debt, Gilts and Cash

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



Investment Performance

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

Fund Performance

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

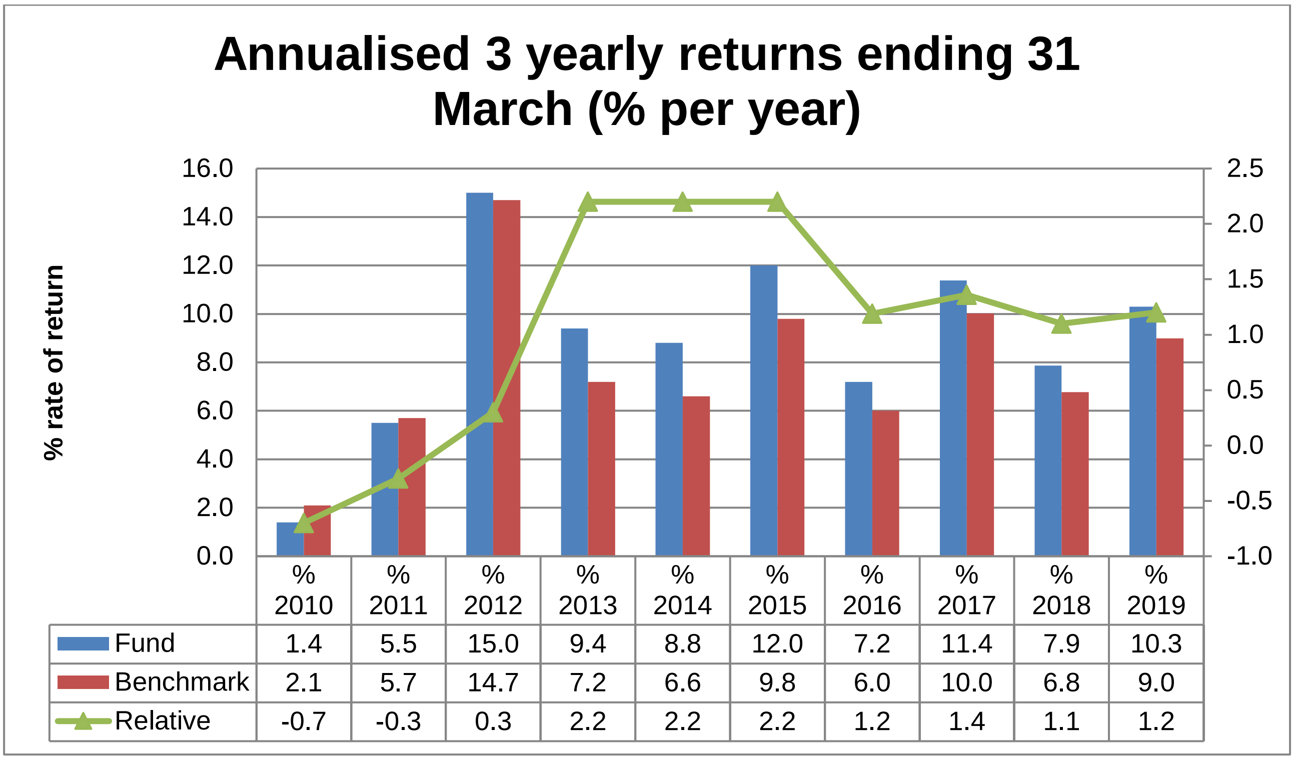
Against this backcloth the Fund achieved a return of 8.5% beating its benchmark by 1.7%. The return was achieved against an environment of increased volatility in November and December 2018 and UK interest rates remaining at historically low levels, albeit the Bank of England base rate was increased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

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

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

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

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



Investment Performance

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

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

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

Investment Manager Benchmarking

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

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

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

Investment Manager Performance

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

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

*Investment not held

Investment Performance

Comment on Manager Performance

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

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

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

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

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

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

Investment Monitoring

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

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

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

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

Investment Holdings

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

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

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

The Falkirk Fund's single largest holding (excluding pooled funds) is in BP and is approximately 0.75% of fund value, and therefore comfortably within the statutory ceiling.

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

Investment Market Review

Overview

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

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

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

	UK Equties	Global Equties	Gilts	Index-Linked Gilts	Investment Grade Bonds	UK Property
■	6.4	10.5	3.7	5.7	3.7	5.1

Index: Bloomberg, MSCI UK Property

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

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

Overview

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

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

The Fund requires its managers to take cognisance of the SIP when constructing portfolios and to report regularly on the extent of their corporate engagement. A number of managers now produce separate quarterly reports which focus solely on sustainability and engagement.

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

Engagement versus Divestment

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

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

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

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

Climate Change

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

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

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

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

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

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

Core Elements of Recommended Climate-Related Financial Disclosures

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

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

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

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

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

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

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

Impact Investment

The Fund does not set out specifically to invest in assets with a wider social or environmental benefit as this could be at variance with its fiduciary responsibilities. Nonetheless, the Fund does invest in a number of infrastructure assets many of which are located in the UK and which help the UK economy to function. These include investments in transport, renewable energy (wind, hydro and solar assets), utilities, as well as elements of social infrastructure such as affordable housing, student accommodation, schools and hospitals.

UK Stewardship Code

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

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

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

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

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

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

Corporate Governance

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

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

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

Local Authority Pension Funds Forum (LAPFF)

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

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

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

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

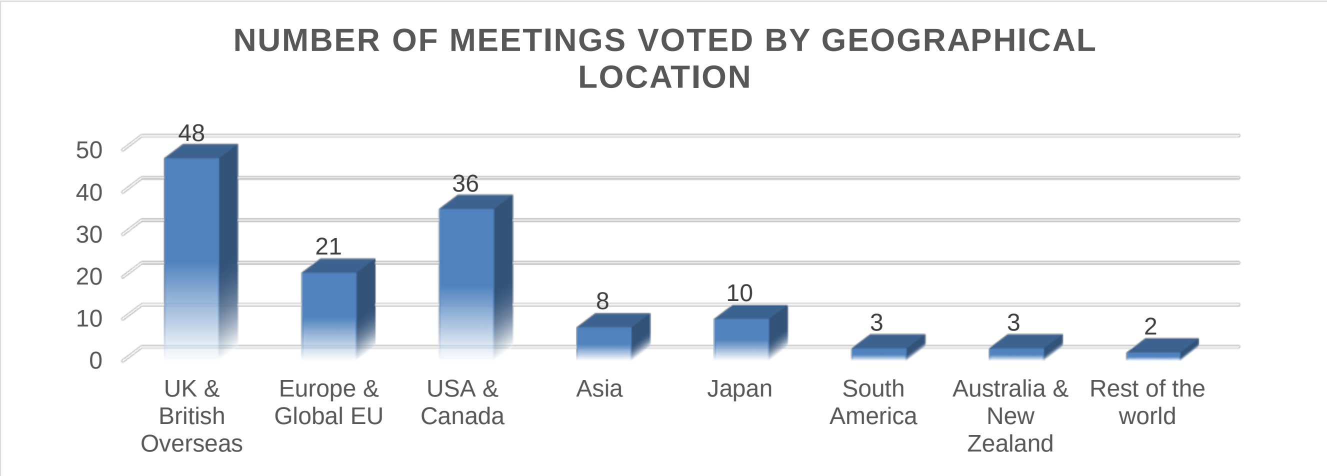
During the year, the Committee has been briefed regularly on Fund voting and on corporate governance engagements targeted by the Local Authority Pension Funds Forum. One highlight was the Fund's co-filing of a motion at the BP AGM on the company's plans for transitioning the business to a lower carbon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

Pensions and Investment Research Consultants Ltd (PIRC)

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

Voting

The Fund could potentially allow its managers to exercise votes on its behalf at company meetings. However, in order to ensure a consistent approach to voting, it has for the past few years engaged PIRC to undertake this service through its Proxy Voting facility. During 2018/19, PIRC voted at 130 company meetings on 1,915 resolutions with 1,241 votes being cast in favour of resolutions, 492 opposed, 148 being mainly abstentions or withheld votes. The breakdown of votes by geography and category is set out overleaf.



Analysis of resolutions

For	Oppose	Abstain	Non-Voting	Withhold
1,241	492	114	34	34

Voting Themes

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

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

Overview

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

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

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

The policy seeks to ensure that the Fund:

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

Risk Identification, Management and Review

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

Risks are identified through a variety of means, including:

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

Risk Management

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

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

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

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

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

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

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

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

Key Risks and Mitigations

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

Identified Risk (classified as Very High)	Responsible Officers	Mitigating Actions	Risk Rating Post Mitigation
Funding position affected by falling asset values or fall in bonds yields impacting on liabilities	Chief Finance Officer Pensions Manager	• Diverse range of assets held • Strategy overseen by Joint Investment Strategy Panel (JISP) • Allocations to Infrastructure, Private Debt and Diversified Growth • Long term time horizon • Periodic reviews of strategy	Medium
Managers under-perform or performance monitoring is ineffective	Chief Finance Officer Pensions Manager	• Reviews by Lothian’s investment team which includes FCA accredited professionals • Performance assessed by JISP • Quarterly calls held with managers • Manager reports/updates provided to Board/Committee • Robust manager selection • Option to terminate managers contract for poor performance	Medium
Climate change	Pensions Manager	• Engagement with investee companies by Fund managers • Lobbying by LAPFF / PIRC	High

Lack of knowledge, skills and leadership amongst Committee, Board and Officers	Chief Finance Officer Pensions Manager	• Training Policy in place • Completion of Regulator toolkit mandatory • Attendance at conferences • Access to wide variety of advice	Medium
Succession Planning may not be adequate in view of the age profile and key person risks across the Pensions Section	Chief Finance Officer Pensions Manager	• Key man risk reduced through rotation of duties • Staff have access to peer group and online network • Collaboration with Lothian and Fife allows for greater resilience • Additional posts recently created within Pensions Structure	Very High
Failure to issue all Benefit Statements by due date	Pensions Manager and Pensions Officers	• Employer training sessions held • Employer reminders sent before and after year end • Move to monthly data collection ongoing	High
Failure of IT systems including Altair (key admin/payroll system) including Altair move to Cloud hosting	Pensions Manager and Pensions Officers	• Altair is a hosted system and is widely used and tested by industry users • Altair contingency arrangements tested annually • Data backed-up daily • Council has IT Disaster Recovery Arrangements • Senior pensions staff equipped with laptops	Medium
Cyber security attack	Chief Finance Officer Pensions Manager	• Hosted platform is consistent with (or stronger than) the Government's Cyber Essential Plus certification • Move to Cloud hosting to further enhance security • Falkirk Council has attained Cyber Essentials certification as well as having ongoing Public Service Network (PSN) Certification	Medium
Inaccurate member data on Altair or incomplete member data due to employer omissions	Pensions Manager	• Data cleansing tools available • Data quality audit undertaken • Employer training sessions and forms revised to improve clarity • System validation, checks on returns and submissions	High
Staff error or backlogs in Service delivery	Pensions Manager and Pensions Officers	• Stable and experienced workforce • Staff training and development ongoing • Processes to involve checking mechanism • Outstanding cases monitored • Robust staff selection and new posts recently created	High

Data Security and Cyber Risk

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

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

- All staff are trained regularly on their obligations in respect of Confidentiality, Data Protection and Information Security
- New staff have these responsibilities and policies explained to them as part of their induction and their understanding is checked
- Where data has to be transferred off site we use either secure FTP, VPN, or Sharefile - a secure file exchange application
- Data classed as sensitive personal data transferred on site is password protected
- Paper records are securely destroyed on site by the in house Pensions team

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

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

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

Investment Risk

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

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

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

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

Fund manager/administrator	Type of assurance	Control Framework	Compliance with controls	Reporting accountant
Aberdeen Standard Investments	AAF 01/06/ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Alcentra/Sanne	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Ancala/Augentius Group Ltd	SOC 1	Reasonable assurance	Reasonable assurance	BDO LLP
Baillie Gifford	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable assurance	PWC LLP
Barings, LLC	SOC 1	Reasonable assurance	Reasonable assurance	Grant Thornton LLP
Blackrock/M&G/State Street	SOC 1	Reasonable assurance	Reasonable assurance	EY LLP
Brookfield/SS&C GlobeOp	SOC 1	Reasonable assurance	Reasonable assurance	PWC LLP
Dalmore Capital	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
GCM Customised Fund Investment Group	SOC 1	Reasonable assurance	Reasonable assurance	EY LLP
Legal & General	AAF 01/06/ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
State Street (M&G)	SOC 1	Reasonable assurance	Reasonable assurance	EY LLP
Newton Investment Management	ISAE3402/SSAE16	Reasonable assurance	Reasonable assurance	KPMG LLP
Schroder Investment Management	ISAE 3402/AAF 01/06	Reasonable assurance	Reasonable assurance	EY LLP
UBS (Greensands)	ISAE 3402	Reasonable assurance	Reasonable assurance	EY LLP

Statement of Responsibilities

Administering Authority's Responsibilities

The Authority is required to:

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

I confirm that these Annual Accounts were approved for signature by the Falkirk Council Pension Fund Committee at its meeting on 26 September 2019.

Councillor Adanna McCue
Convener of the Pensions Committee

Chief Finance Officer Responsibilities

The Chief Finance Officer is responsible for the:

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

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

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

The Chief Finance Officer has also:

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

Certificate by the Chief Finance Officer

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2019 and the transactions of the Pension Fund for year ended 31 March 2019.

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

Pension Fund Account

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

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

Pension Fund Net Assets Statement

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

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

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 20.

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

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

Notes to the Accounts

1. Fund and Scheme Overview

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

The LGPS is a public sector statutory scheme which provides defined benefits on a career average basis (n.b. benefits accrued prior to April, 2015 are provided on a final salary basis). The Scheme falls under the regulatory framework of the Public Service Pensions Act 2013. The Scheme is also registered with HM Revenue and Customs as a UK pension scheme and was formerly contracted-out of the State Second Pension.

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

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

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

Administration of the Falkirk Council Pension Fund is undertaken by an in-house team who oversee the benefits of contributors, deferred members and pensioners on behalf of Clackmannanshire, Falkirk and Stirling Councils, as well as around 30 other employers. Teachers, Police and Firefighters do not come within the scope of the LGPS as they have their own national pension arrangements. A full list of employers who participate in the Falkirk Council Pension Fund is included in this report in Appendix 2.

Membership

Membership of the LGPS is voluntary with employees being enrolled in the scheme automatically (either as a result of auto enrolment legislation or the Scheme's own contractual enrolment provisions). Employees are free to choose whether to remain in the scheme or, having opted out, join it at a later date.

Organisations participating in the Scheme fall into two categories:

Scheduled Bodies - organisations such as local authorities that are statutorily required to offer the Scheme to their employees

Admission Bodies - mainly charitable, non-profit making bodies that have reached an agreement with an Administering Authority to participate in the Scheme

Full details of membership numbers are contained on page 26 of the Annual Report.

Benefits

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

	Service pre 1 April 2009	Service post 31 March 2009	Service post 31 March 2015
Pension	Each year worked is worth 1/80th x final pensionable salary	Each year worked is worth 1/60th x final pensionable salary	Each year worked is worth 1/49 of pensionable earnings
Lump Sum	Automatic lump sum of 3 x annual pension In addition, part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.
	The lump sum cannot be greater than 25% of the capital value of the pre 2009 and post 2009 pension rights.		

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

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

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

Funding

Benefits are funded by contributions and returns on investments. Contributions are made by active members of the Fund in accordance with the Local Government Pensions Scheme (Scotland) Regulations 2014. The rate of employee contribution varies depending on a member's annual pensionable pay with designated pay bands attracting rates of between 5.5% and 12%.

Employer contributions are based on the results of a three yearly actuarial funding valuation. The last completed valuation was as 31 March 2017, which set the rates for 3 year period starting from 2018/19 to 2020/21. For the majority of employers, contribution rates were in a range of 19% – 35% of pensionable pay. A copy of 2017 Valuation Report can be found at www.falkirkpensionfund.org.

2. Basis of Preparation

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

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The code requires the disclosure of information relating to the impact of an accounting change that will be required by new standards that have been issued but not yet adopted. This applies to the adoption of the following new or amended standard within 2019/20 Code:

- Amendments to IFRS 9 Financial Instruments: prepayment Features with Negative Compensation covering two issues: financial assets may be measured at amortised cost, amended to allow debit instruments with negative compensation prepayment features to be measured at amortised cost or fair value through other comprehensive income, and how to account for the modification of a financial liability that does not result in derecognition, will have immediate recognition of a gain or loss

- Amendments to IAS28: Long-term Interests in Associates and Joint Ventures, clarifying that an entity applies IFRS9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

- Annual Improvements to IFRS Standards 2015- 2017 Cycle made to three IFRS's as a result of the IASB's annual improvements project:

  - IFRS3 Business Combinations & IFRS11 Joint Arrangements – clarifies when the remeasurement of previously held business interests are required should an entity obtain control/joint control of a business that is a joint operation,

  - IAS12 Income Taxes – clarifies the recognition requirements of the income tax consequences of dividends,

  - IAS23 Borrowing Costs – clarifies the treatment of outstanding borrowing after an asset is ready for intended use or sale.

The provision of the above standards does not apply until 2019/20 financial year and there is therefore no impact on the 2018/19 accounts. These amended standards are not expected to have a significant impact on the accounts in future years.

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

The accounts have been prepared on going concern basis.

3. Summary of Significant Accounting Policies

Fund Account - revenue recognition

a) Contribution income

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

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

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

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

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund and are calculated in accordance with the Local Government Pension Scheme regulations and guidance from the Government Actuary. Individual transfers in/out are accounted for when member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on receipts basis and are included in Transfers In Note 8.

c) Investment income

- Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

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

Fund Account - expense items

d) Benefits payable

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

e) Taxation

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

f) Management Expenses

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

- Administrative Expenses
  All staff costs of the Pensions Administration Section are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- Oversight and Governance Costs
  All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- Investment Management Expenses
  Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments.

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

Net assets statement

g) Financial assets

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in “Practical Guidance on Investment Disclosures” (PRAG/Investments Association, 2016) (see Note 16).

h) Freehold and leasehold properties

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

i) Foreign currency transactions and balances

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

j) Derivatives

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

k) Cash and cash equivalents

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

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statements (see Note 20).

n) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 23.

o) Contingent assets and contingent liabilities

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

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

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

4. Critical Judgement in Applying Accounting Policies

Pension Fund Liability

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

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

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

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

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

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

- Actuarial present value of promised retirement benefits (Note 20)
  Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in inflation, retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

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

Change in assumptions at 31 March 2019	Approximate % increase in liabilities	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	**11%**	**369**
0.5% increase in the Salary Increase Rate	**2%**	**61**
0.5% increase in the Pension Increase Rate	**8%**	**284**

- Private equity/infrastructure investments/private debt (Note 16)
  Private equity and infrastructure investments are valued at fair value in accordance with "International Private Equity and Venture Capital Valuation Guidelines (2012)". These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

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

- Freehold and leasehold property, pooled property funds (Note 16)
  Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or discount rate could affect the fair value of property.

  The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property by £0.2m on a fair value of £2.6m.

6. Events after the Balance Sheet Date

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 27 June 2019. Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

The Fund has received updated Private Equity/Infrastructure statements for 31 March 2019. The variance between the valuation included in the accounts and the updated statements amounts to £1.1m (£8.6m at 31 March 2018). The amount is not material and therefore no adjustment has been made in the Net Asset Statement.

7. Contributions Receivable

By Category

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

By Authority

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

8. Transfers from Other Pension Funds

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

2017/18 £'000		2018/19 £'000
3,482	Individual transfers	5,877

9. Benefits Payable

By Category

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

By Authority

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

10. Payments to and on Account of Leavers

2017/18 £'000		2018/19 £'000
246	Refunds to members leaving service	232
5,969	Individual transfers	5,371
6,215	**Total**	**5,603**

11. Management Expenses

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

11a. Investment Management Expenses

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

In addition to fees disclosed in this note, the Fund also incurred indirect management fees resulting from investments in fund of funds structures. The estimated value of these fees in 2018/19 is £3.7m (£3.7m in 2017/18).

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

12. Investment Income

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

13. Other Fund Account Disclosures

13a. External Audit Costs

2017/18 £'000		2018/19 £'000
20	Payable in respect of external audit	24

14. Investments

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

14a. Reconciliation of Movements in Investments and Derivatives

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

Period 2017/18 Investment Assets	Market Value 01/04/17 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/18 £'000
Bonds	3,839	-	-	342	4,181
Equities	818,939	250,811	(209,447)	(10,331)	849,972
Pooled investments	905,873	-	(1,124)	26,260	931,009
Managed property funds	142,819	-	(15,328)	9,629	137,120
Directly owned property	2,500	-	-	-	2,500
Private equity	68,709	4,033	(20,401)	6,439	58,780
Infrastructure	111,917	39,911	(12,144)	5,685	145,369
Private debt	4,782	-	(2,736)	134	2,180
Derivatives					
• Options	76	778	(1,399)	640	95
• Forward foreign exchange	(123)	561	(452)	172	158
	2,059,331	**296,094**	**(263,031)**	**38,970**	**2,131,364**
Cash deposits	107,755	380		(2,974)	147,392
Amounts receivable for sale of investments	78,912				7,982
Investment income due	3,359				4,071
Payable for purchases of investments	(38,543)				(8,806)
Net Investment Assets	**2,210,814**			**35,996**	**2,282,003**

14b. Analysis of Investments

31/03/18 £'000		31/03/19 £'000
4,181	**UK Corporate Bonds**	**4,815**
	Quoted Equities	
357,498	UK	379,997
492,474	Overseas	562,583
849,972		**942,580**
	Pooled funds	
146,231	Equities – UK	164,886
344,651	– Overseas	366,757
125,467	Bonds – UK	119,744
51,746	– Overseas	64,478
238,469	Diversified growth	240,298
24,445	Social & affordable housing	24,024
931,009		**980,187**
	Property	
135,816	Pooled property funds - UK	127,055
1,304	- Overseas	20,573
2,500	Directly owned property - UK	2,600
139,620		**150,228**
	Private Equity	
58,780	Overseas funds	57,640
58,780		**57,640**
	Private Debt	
2,180	UK funds	1,599

-	Overseas	16,839
2,180		**18,438**
	Infrastructure	
66,913	Pooled infrastructure funds – UK	94,230
78,456	– Overseas	85,176
145,369		**179,406**
	Derivatives	
95	Options	-
158	Forward foreign exchange	226
253		**226**
147,392	**Cash deposits**	**140,041**
4,071	**Investment income due**	**5,125**
7,982	**Amounts receivable from sales**	**24,437**
2,290,809	**Total investment assets**	**2,503,123**
	Investment liabilities	
(8,806)	Amounts payable for purchases	(22,470)
(8,806)	**Total investment liabilities**	**(22,470)**
2,282,003	**Net investment assets**	**2,480,653**

14c. Investments Analysed By Fund Manager

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

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

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

14d. Securities Lending

The Fund did not participate in any stock lending programmes.

14e. Property Holdings

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

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

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

15. Analysis of Derivatives

The Fund's approach to derivatives is to allow individual managers to decide to participate in derivative contracts subject to any limits set out in their investment management agreements. At present, only Newton chooses to do so, with derivatives making up 0.05% of their portfolio's value.

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

Prior year comparative

Open forward currency contracts at 31 March 2018	**178**	**(20)**
Net forward currency contracts at 31 March 2018	**158**	

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

16. Fair Value – Basis of Valuation

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

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

Sensitivity of assets valued at level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

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

16a. Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Values at 31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit & loss	941,833	1,109,579	279,508	2,330,920
Non-financial assets at fair value through profit and loss	-	-	2,600	2,600
Net investment assets	**941,833**	**1,109,579**	**282,108**	**2,333,520**

16b. Reconciliation of fair value measurements within Level 3

	Market Value 1 April 2018	Purchases during the Year	Sales during the Year	Unrealised Gains/ (Losses)	Realised Gains/ (Losses)	Market Value 31 March 2019
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Infrastructure	145,369	35,363	(30,166)	14,720	14,120	179,406
Private Debt	2,180	16,913	(751)	(320)	416	18,438
Private Equity	58,780	3,415	(15,870)	1,458	9,857	57,640
Social & Affordable Housing	24,445	-	(542)	121	-	24,024
Property	2,500	-	-	-	100	2,600
	233,274	**55,691**	**(47,329)**	**15,979**	**24,493**	**282,108**

17. Financial Instruments

17a. Classification of Financial Instruments

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

31 March 2018						31 March 2019
Fair value through profit & loss £'000	**Loans and receivables £'000**	**Financial liabilities at amortised cost £'000**		**Fair value through profit & loss £'000**	**Loans and receivables £'000**	**Financial liabilities at amortised cost £'000**
			Financial Assets			
4,181			Bonds	4,815		
849,972			Equities	942,580		
931,009			Pooled investments	980,187		
137,120			Property	147,628		
58,780			Private Equity	57,640		
145,369			Infrastructure	179,406		
2,180			Private Debt	18,438		
253			Derivative contracts	226		
	150,584		Cash		143,909	
	12,053		Other investment balances		29,562	
	6,666		Debtors		9,003	
2,128,864	**169,303**	**-**	**Total**	**2,330,920**	**182,474**	**-**
			Financial Liabilities			
(8,806)			Other Investment balances	(22,470)		
		(2,971)	Creditors		-	(3,345)
(8,806)	**-**	**(2,971)**	**Total**	**(22,470)**		**(3,345)**
2,120,058	**169,303**	**(2,971)**		**2,308,450**	**182,474**	**(3,345)**

2018		2019
2,286,390	**Total net financial instruments**	**2,487,579**
2,500	Amounts not classified as financial instruments	2,600
2,288,890	**Total net assets**	**2,490,179**

17b. Net Gains and Losses on Financial Instruments

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

18. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

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

Types of Investment Risk

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

(i) Market Risk

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

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

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

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

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

(ii) Interest Rate Risk

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

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

(iii) **Currency Risk**

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

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

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

(iv) **Credit Risk**

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

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

The main area where risk is not reflected in a market price is cash deposits which at 31 March 2019 accounted for 9.95% of fund assets (31 March 2018: 11.2%).

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

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

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

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

(v) **Liquidity Risk**

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

A majority of the Fund's investment assets (estimated to be around 79.5%) could be converted into cash within three months in normal market conditions.

(vi) **Refinancing Risk**

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

Sensitivity Analysis

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

Asset Type	Potential price movement (+ or -)
Equities – Developed Markets	20.5%
Equities – Emerging Markets	30.0%
Private Equity	30.0%
Private Debt	10.0%
Commodities	30.0%
Property	13.0%
Infrastructure	12.0%
Corporate Bonds	7.5%
Diversified Credit	11.0%
Fixed Interest Gilts	6.7%
Index-Linked Gilts	11.2%
Cash	0.9%

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

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

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

Position as at 31 March 2019

Asset Type	Asset Value (£'m)	Asset Weight	Volatility	Potential Change +/- (£'m)	Value on increase (£'m)	Value on decrease (£'m)
Equities - Developed Markets	1,444.9	58.2%	20.5%	296.2	1,741.1	1,148.7
Equities - Emerging Markets	78.6	3.2%	30.0%	23.6	102.1	55.0
Private Equity	58.8	2.4%	30.0%	17.7	76.5	41.2
Private Debt	18.4	0.7%	10.0%	1.8	20.3	16.6
Commodities	7.7	0.3%	30.0%	2.3	10.0	5.4
Property – Balanced	193.5	7.8%	13.0%	25.2	218.6	168.3
Infrastructure	207.3	8.4%	12.0%	24.9	232.1	182.4
Corporate Bonds	97.2	3.9%	7.5%	7.3	104.5	89.9
Diversified Credit	40.4	1.6%	11.0%	4.4	44.8	35.9
Fixed Interest Gilts	122.3	4.9%	6.7%	8.2	130.5	114.1
Index-Linked Gilts	44.0	1.8%	11.2%	4.9	49.0	39.1
Cash	167.6	6.8%	0.9%	1.6	169.1	166.0
Total Assets (without correlations)	**2,480.7**	**100.0%**	**16.9%**	**418.1**	**2,898.6**	**2062.6**
Total Assets (including correlations)	**2,480.7**		**13.9%**	**344.4**	**2,825.1**	**2,132.2**
Assets Relative to Liabilities (including correlation)	**2,480.7**		**14.2%**	**351.6**	**2,832.3**	**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 2018 are set out in the table below.

Position as at 31 March 2018

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

19. Funding arrangements

In line with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2017 and the next valuation is due to take place as at 31 March 2020.

The key elements of the funding policy are:

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

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

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

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

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

Financial Assumptions

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

Demographic Assumptions

The life expectancy assumption is based on the Fund's Club Vita analysis with improvements in line with the CMI 2016 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2014	31 March 2017
Male		
Pensioners	22.1 years	21.2 years
Non-pensioners	24.3 years	22.7 years
Female		
Pensioners	23.8 years	23.7 years
Non-pensioners	26.3 years	25.5 years

Commutation Assumption

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

50:50 Option

It is assumed that 10% of members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the Scheme.

More Information

The Actuary has provided a statement describing the funding arrangements of the Fund during 2018/19. This can be found at Appendix 1 of this report.

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

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

20. Actuarial Present Value of Promised Retirement Benefits

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

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

31 March 2018 £'000		31 March 2019 £'000
(2,959)	Present value of promised retirement benefits	(3,363)
2,289	Fair value of scheme assets (bid value)	2,490
(670)	**Net Liability**	**(873)**

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

IAS19 Assumptions	2018/19 %	2017/18 %
Discount rate	2.4	2.7
Salary increase rate	3.0	2.9
Pension increase rate	2.5	2.4

21. Current Assets

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

22. Current Liabilities

31 March 2018 £'000		31 March 2019 £'000
(1,080)	Benefits payable	(745)
(261)	Transfer values payable (leavers)	(993)
(1,630)	Sundry creditors	(1,607)
(2,971)	**Total**	**(3,345)**

23. Additional Voluntary Contributions

31 March 2018 £'000		31 March 2019 £'000
3,143	Standard Life	3,199
2,584	Prudential	3,765
5,727	**Total**	**6,964**

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

24. Related Party Transactions

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

The Council is also the single largest employer of members of the Fund and contributed £22.7m to the fund in 2018/19 (2017/18: £21.1m).

The Fund uses Council premises and systems and these costs are recharged back to the Fund. Transactions between the Council and the Fund are closely monitored with the aim of any balances being settled as soon as reasonably practicable. At 31 March 2019 the Fund owed the Council £11k (£0.7m in 2017/18) in respect of transactions between the Council and the Fund with payment transferred to the Council at the beginning of 2019/20.

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

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

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

24a. Key Management Personnel

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

31 March 2018 £'000		31 March 2019 £'000
89	Short-term benefits	95
648	Post-employment benefits	720
737	**Total**	**815**

25. Contingent Liabilities and Contractual Commitments

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

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

GMP Equalisation
Following the High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise Guaranteed Minimum Pension (GMP) for men and women. There is insufficient data at present to estimate reliably the impact this will have on scheme liabilities. The Fund's actuary, Hymans Robertson LLP has advised that following discussions with the National Audit Office and other LGPS actuaries, the general

view is that a ‘trigger event’ to enable calculation to be undertaken is yet to occur in the LGPS and their default approach is to ignore any GMP impact in the 31 March 2019 accounts.

GMP Reconciliation

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

McCloud v Ministry of Justice

A Supreme Court judgement is awaited in McCloud v Ministry of Justice. This relates to discrimination claims that older public service pension scheme members were treated more favourably when schemes were reformed in 2015. If McCloud goes in favour of the scheme members then scheme benefits will have to be improved to equalise benefits. This would add to Fund liabilities and would be a factor in determining employer contribution rates following the next valuation on 31 March 2020. As the case has the potential to improve member benefits, some of the additional costs could be passed on to members under the Cost Cap arrangements – the cost sharing mechanism introduced to the reformed schemes in 2015.

The cost of equalising benefits has not yet been undertaken due to the legal uncertainties and the significant actuarial analysis that would be required. The potential liability is therefore as yet unquantifiable.

26. Contingent Assets

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

Annual Governance Statement 2018/19

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

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

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

Pension Fund Governance Framework

The LGPS regulations require Funds to publicise their governance arrangements in a Governance Compliance Statement. The current governance structure is described at page 13-16 of the Fund Annual Report and Accounts. The Governance Compliance Statement was updated in August 2017 to take account of a revised governance model in relation to investment decision making.

Scope of Responsibility

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

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

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

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

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

Control Environment

The scale of the Fund's investments (c.£2.5bn) and attendant risks underline the importance of control reports obtained from external investment managers. The main source of assurance is the annual audit report produced by each of the managers' independent service auditors. A similar report is also obtained in respect of the Fund's Global Custodian who is responsible for the safekeeping and servicing of the Fund's assets. Fund Officers review these reports and, on an exceptions basis, report any concerns to the Pensions Committee. Details of the reports obtained are listed on Page 49 of the Annual Report. Separately, officers of the Fund (and seconded colleagues from the Lothian Pension Fund) meet at least annually with fund managers to gain assurance around the safeguarding of assets and resilience of systems.

In line with the Council's procedures for investigating fraud and corruption, the Fund participates in the National Fraud Initiative (undertaken every 2 years) to identify payments being made to deceased pensioners and actively investigates cases of irregularity. These results are reported to the Pensions Committee.

To support its overall framework of control, the Fund has a Conflict of Interest Policy which supplements the Council's own Code of Conduct for Members and Officers. In addition, all Members are required to adhere to the Standards Commission Scotland's Councillors' Code of Conduct. Contract Standing Orders and Financial Regulations which regulate financial and transactional activity have been updated in recent years to take account of evolving systems and emerging risks.

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

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

Monitoring and Review of Governance Arrangements

The Fund's governance arrangements are formally monitored via:

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

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

System of Internal Financial Control

This section deals with the systems of internal financial control of Falkirk Council as administering body of the Fund for the year to 31 March 2019. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control.

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

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

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

All Internal Audit reports are issued to the relevant managers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising are brought to the attention of the Pensions Committee. During 2018/19, there were no matters which required to be brought to the attention of the Committee.

During 2018/19, in addition to work on the Council's wider control environment, Internal Audit undertook a review of data security, governance arrangements and sample transactional testing around key pensions administration activities. The transactional testing was to determine if:

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

As a result of the work undertaken in 2018/19, Internal Audit were able to provide Substantial Assurance in relation to the adequacy of arrangements and found that the processes were working effectively. This will be reported to the Pensions Committee and Pension Board at their joint meeting of 27 June 2019.

Governance Arrangements – Future Developments and Improvements

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

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

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

Certification

This Annual Governance Statement summarises, openly and transparently, arrangements made by Falkirk Council Pension Fund for 2018/19 and the period to date. It highlights areas for improvement, and is consistent with the Council's own improvement agenda.

Councillor Adanna McCue
Convener of the Pensions Committee

Kenneth Lawrie
Chief Executive Falkirk Council

Governance Compliance Statement

Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 2014/164) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements. The undernoted Statement tests the Falkirk Fund's compliance with the best practice principles as set out in the SPPA Best Practice Guidelines of April, 2011.

Principle A – Structure

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

Principle B – Representation

Requirement		Level of Compliance	Arrangements in Place
(a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	(i) Employing authorities (including e.g. admission bodies);	**Full Compliance**	Representatives of fund employers, including an admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee
	(ii) Scheme members (including deferred and pensioner scheme members);	**Full Compliance**	Active, deferred and pensioner members are represented by Trade Union members who sit on the Pension Board. A Trade Union member also sits on the Pensions Committee. Pensioners are represented by a pensioner member who sits on the Committee.
	(iii) Where appropriate, independent professional observers; and	**Not Compliant**	There are no independent professional observers of Committee or Board business. It is considered that: • the diversity of representation; (employers, pensioner and Unions) • the Joint Investment Strategy Panel • the training arrangements; • the annual audit process; and • attendance of professional advisors provide robust and adequate scrutiny of pension fund business.
	(iv) Expert advisors (on an ad-hoc basis).	**Full Compliance**	Support for the Pensions Committee and Pension Board is provided by specialists in the following areas: • actuarial and investment advisers • corporate governance advisers • investment managers and custodian
(b)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Full Compliance**	The co-opted members on the Pensions Committee and the Pension Board all have equality of access to papers, meetings and training. The co-opted members also have full opportunity to contribute to the decision making process, including the right to vote.

Principle C – Selection and role of lay members

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

Principle D – Voting

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

Principle E – Training / Facility Time / Expenses

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

Governance Compliance Statement

Principle F – Meetings (Frequency/Quorum)

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

Principle G – Access

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

Principle H – Scope

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

Principle I – Publicity

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

Chief Finance Officer
Falkirk Council, 24th August 2017

APPENDIX 1

Actuarial Statement for 2018/19

Falkirk Council Pension Fund ("the Fund")

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2018. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £2,219 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £184 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Details of the methods and assumptions used are described in the 2017 valuation report.

Method

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

Assumptions

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

Actuarial Statement

The key financial assumptions adopted for the 2017 valuation were as follows:

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

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

*Currently aged 45

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

Experience over the period since 31 March 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on liabilities but there have been positive asset returns over the 2 years. The positive asset returns have slightly outweighed the impact of falling bond yields. The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Julie West FFA

For and on behalf of Hymans Robertson LLP
13 May 2019

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

APPENDIX 2

Scheduled and Admission Bodies as at 31 March 2019

Scheduled Bodies

Central Scotland Joint Valuation Board
Clackmannanshire Council
Falkirk Council
Forth Valley College
Scottish Children's Reporter Administration (SCRA)
Scottish Environment Protection Agency (SEPA)
Scottish Fire and Rescue Service (ex Central Scotland Fire & Rescue Service)
Scottish Police Authority (ex Central Scotland Police and SPSA)
Stirling Council
Visit Scotland (Ex-Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board)

Admission Bodies with Active Members

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

Other Admission Bodies with Pensioners and/or Deferred Members

Alsorts
Central Carers Association
Central Scotland Council for Regional Equality
Ceteris
Open Secret
Plus
Seamab School
Stirling University
Stirling Enterprise (STEP)
Waterwatch Scotland