

**FALKIRK COUNCIL**

**Subject: FUNDING AND INVESTMENT STRATEGY UPDATE**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 6 December 2012**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This purpose of this report is to advise the Committee of the latest funding position of the Falkirk Council Pension Fund.
- 1.2 The report also serves as an introduction to the presentation being given by Linda Selman of Hymans Robertson on the Fund's Funding and Investment Strategy.

**2. BACKGROUND**

- 2.1 The Pension Fund is valued every three years by an independent actuary. This is to ensure that the solvency of the Fund is maintained through employers paying an appropriate contribution. The last valuation took place on 31<sup>st</sup> March, 2011 and the next valuation is scheduled for 31<sup>st</sup> March, 2014.
- 2.2 The key results of the 2011 valuation, summarised at a whole Fund level, are set out below:

Future Service Rate	16.2%
Past Service Deficit Adjustment	4.3%
<b>Total Employer Contribution</b>	<b>20.5%</b>
Fund Assets	£1.199m
Fund Liabilities	£1,392m
Funding Deficit	-£193m
Funding Level	<b>86%</b>

- 2.3 In addition to three yearly valuations, the funding position is reviewed periodically between valuations. This is in accordance with the Funding Strategy Statement and helps demonstrate good stewardship of the Fund.

**3. THE MONITORING PROCESS**

- 3.1 The revised funding position is calculated by the Actuary, taking into account the results of the last valuation and subsequent cash flows and investment returns.
- 3.2 The funding reports are based on the pension fund position as a whole. Individual employers can, on request, commission reports about their own organisation.

#### **4. FUNDING UPDATE**

- 4.1 The funding policy is to achieve a funding level of 100%. If the Fund is in deficit, as at present, the policy is to implement increased employer contributions on a phased basis and to allow deficits to be repaired over a period of up to 20 years.
- 4.2 The latest funding position compared to the 2011 valuation is as follows:

	<b>As at 31/03/2011</b>	<b>As at 30/09/2012</b>	<b>Amount of Change</b>
Fund Assets	£1,199m	£1,322m	+£123m
Fund Liabilities	£1,392m	£1,702m	+£310m
Funding Deficit	-£193m	-£380m	-£187m
Funding Level	<b>86%</b>	<b>77%</b>	<b>-9%</b>

- 4.3 The funding update shows that as at 30<sup>th</sup> September, 2012 the funding level has fallen to 77%. This is partly due to asset underperformance (6.7% actual against 8.9% targeted) but primarily due to the fall in gilt yields which has pushed up the value of the scheme liabilities. Gilt yields, in turn, have been driven down by the successive rounds of quantitative easing undertaken by the Bank of England and the attraction of Government Bonds as a safe haven to foreign investors.
- 4.4 A copy of the funding report is attached at Appendix 1 to this report.
- 4.5 A presentation combining these funding issues with the on-going investment strategy is being delivered by Linda Selman, the Fund's investment adviser with Hymans Robertson.

#### **5. RECOMMENDATION**

- 5.1 **The Committee is invited to comment on the update of the Fund's funding position and the presentation from Linda Selman.**

**Chief Finance Officer**

**Date: 9<sup>th</sup> November, 2012**

#### **LIST OF BACKGROUND PAPERS**

NIL