

# Fife Pension Fund Accounts 2016-17





## Fife Pension Fund Annual Report 2016-17

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## MANAGEMENT COMMENTARY

### Introduction

Welcome to the Annual Report and Accounts for the 2016-17 Local Government Pension Scheme (LGPS) administered by Fife Council. The report is intended to keep members, employers, pensioners and other interested stakeholders informed about the management and performance of the Pension Fund.

The report has been produced in accordance with Regulation 31A of the Local Government Pension Scheme Amendment (Scotland) Regulation 2010 and supporting guidance issued by Scottish Ministers.

### Overview of Fund Business

Under the statutory provisions of the Local Government Pension Scheme, Fife Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund – the Fife Council Pension Fund.

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. The Fund also receives income from its investments, which include equities, bonds, property and infrastructure.

The fund operates under the terms of the Local Government Pension Scheme (LGPS), which is a public sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public sector pension scheme. Teachers are not included as they have a separate national pension scheme.

A list of employers who contribute to the Fund as either scheduled or admitted bodies, can be found in the ‘Membership of the Fund’ section of this report.

### Review of the Year

### Key Facts and Figures

**An operational and investment surplus of £408.3m** was generated on the activities of the fund (compared to £22.7m for the year ended 31 March 2016).

**The increase in the value of the fund** has been achieved through a surplus of contributions receivable (£94.1m) less benefits payable (£77.7m) and management expenses (£8.6m), investment net income (£22.8m) along with an increase in the market value of investments (£377.8m).

**Performance of the fund** - the fund has outperformed the 3 year benchmark of 10.10% by 1.33%

**Fund membership** increased by 725 to 33,975

**Employers contributed** £73.2m to the fund (£68.4m to 31 March 2016)

**Employees contributed** £17.9m (£17.6m to 31 March 2016)

**Pensions and other benefits paid out** were £74.2m (£69.5m to 31 March 2016).

**Transfer values paid into the fund because staff changed employers** was £3.0m (£1.2m to 31 March 2016).

**Transfer values paid out of the fund because staff changed employers** was £3.2m (£2.5m to 31 March 2016).

The fund has returned 21.05% in the year, outperforming the composite benchmark of 18.41% by 2.64% (net of fees). The fund has also outperformed the 3 year benchmark of 10.10% by 1.33% and the 5 year benchmark of 9.41% by 0.95%, but has underperformed the benchmark since inception of 8.59% by 0.12% (net of fees).

The benchmark return of 18.41% generally reflects favourable market conditions for investors during the year. The 2.64% return above benchmark is attributed to Long Term Global Growth mandate outperformance of 4.48% and absolute returns which outperformed by 10.37%, offset by underperformance in other mandates.

The combined asset value of the funds invested at the end of March 2017 increased by £405m to £2.259bn, an increase of £21.9%.

The value of the fund has increased by £408.3m in the financial year and totalled £2,261bn at 31 March 2017.

The change in value of the fund over any given period is a combination of new money flows into or out of the Fund and any gain or loss on the capital value of its investments. During the year income from dividends and interest was £22.8m (2015/16 £22.5m). The fund was further enhanced by a surplus of member contributions receivable over pension payments and management expenses of £7.8m (2015/16 £5.4m) as well as a net capital gain increase of £377.8m (2015/16 £5.193m loss). Irrecoverably withholding tax reduced the value of the fund by £0.094m (2015/16 £0.054m).

The accounts are based on the market value of investments at 31 March 2017. This means that they include the profit or loss that has been made, due to the change in the value of investments, over the period from the date of their purchase to 31 March 2017 even although no actual sale has taken place. This notional value is defined as “unrealised” profit or loss. By contrast “realised” profits and losses are those that have arisen from actual sales throughout the year. The net capital gain of £377.8m (2015/16 £5.1m loss) in the year, £322.3m (2015/16 £109.9m loss) was an unrealised gain and £55.5m (2015/16 £104.8m) realised profit.

### **Investment Trends and Influences**

The following commentary was provided by the Local Authority’s treasury advisers Capita Asset Services Ltd:-

*“Two major landmark events had a significant influence on financial markets in the 2016-17 financial year : the UK EU referendum in June and the election of President Trump in the USA in November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England’s Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would consider cutting Bank Rate again towards the end of 2016, in order to support growth.*

*In the second half of 2016, the UK economy confounded the Bank’s pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 of 1.8%, nearly the fastest rate of growth of any of the G7 countries. This meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar, but had not fallen as far against the euro, and market expectation for the first increase in Bank Rate moved forward to quarter 3 2018, in response to increasing concerns around inflation.*

### **Equity markets**

*The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE100 companies which had major earnings not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President, as he had promised a major fiscal stimulus to boost the US economy and growth rate.*

## **USA**

*Quarterly growth in the US was very volatile during 2016, but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates.*

## **Eurozone**

*The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and done major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels and to get inflation up from near zero towards its target of 2%. These purchases have resulted in depressed bond yields in the EU, however, towards the end of 2016, yields rose, probably due in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 France, Germany and the Netherlands. The action taken by the ECB has resulted in economic growth improving significantly in the Eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.*

*On the other hand, President Trump's election and promise of fiscal stimulus, likely to increase growth and inflationary pressures in the US, have resulted in Treasury yields rising sharply since his election. Gilt yields in the UK have been caught between these two influences and the result is that the gap in yield between US treasuries and UK gilts has widened sharply during 2016/17.*

## **Japan**

*Japan struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.*

## **China and emerging market countries**

*At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and/or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year."*

## **Investment Management Arrangements**

The fund's assets are invested in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010. The regulations cover the appointment of fund managers and the use and investment of fund money. The fund is required to take proper advice about its investments.

The Statement of Investment Principles (SIP) (Appendix B) and the Fund's Funding Strategy Statement give more information on the fund's investment framework at the start of the year. The full Funding Strategy Statement can be viewed at: [www.fifedirect.org/lgps](http://www.fifedirect.org/lgps).

The sub-committee has agreed an investment strategy for the fund and set a benchmark. Its deliberations have been supported by professional advisors, Hymans Robertson Investment Consultants.

Following a review of the Fund's bond mandates with Henderson and Western, the sub-committee agreed some changes with effect from 26 September 2016:

- each manager's benchmark was updated to a revised split of 25% gilts, 25% index-linked gilts and 50% corporate bonds
- each manager's government bond allocation of gilts and index-linked gilts will be managed passively, resulting in reduced ongoing management fees and reduced risk of underperformance relative to benchmark
- both managers will target a +1% p.a. outperformance objective for their 50% corporate bond allocation
- the benchmark index for Western's corporate bond allocation was changed to the iBoxx Sterling Non-Gilts index, so that both managers' active corporate bond allocation is measured against a consistent benchmark

The sub-committee reviewed the investment strategy of the fund in March 2013, when it re-affirmed the low-risk strategic allocation of 80% in growth assets (equities, property, infrastructure and absolute return) and 20% in non-growth assets (bonds). The current total fund strategic benchmark is:-

Asset Class	Allocation %	Benchmark
UK Equities	20	FTSE All Share Index
Global Equities (Baillie Gifford and Lazard Asset Mgmt)	23	MSCI All Countries World ND Index
Global Equities (State Street Global Advisors)	12	FTSE RAFI World 3000 Index
Property	10	HSBC/APUT All Pooled Funds Index
Infrastructure, Absolute Return & Cash	15	UK Base Rate
Bonds (Henderson and Western)	10	iBoxx Sterling Non Gilts Index
Bonds (Western)	2.5	FTSE UK Gilts All Stocks Index
Bonds (Henderson)	2.5	FTSE Actuaries Over 5 Year UK Gilts Index
Bonds (Henderson)	2.5	FTSE Actuaries UK Index-Linked Over 5 Year Index
Bonds (Western)	2.5	FTSE Index Linked Gilt All Stocks Index
<b>Total</b>	<b>100</b>	

At 31 March 2017, nine mandates are managed by investment managers. The investment managers are delegated the responsibility to invest the assets of the fund in accordance with these agreed mandates.

The investment managers at 31 March 2017 are:-

Manager	Mandate	
BlackRock	UK Equities	Passive
State Street Global Advisors	Global Equities	Fundamental Indexation
Baillie Gifford	Global Equities	Unconstrained
Lazard Asset Management	Global Equities	Unconstrained
Henderson Global Investors	Bonds	Active Corporate Bond Portfolio
Henderson Global Investors	Bonds	Passive Government Bond Portfolio
Western Asset Management	Bonds	Active Corporate Bond Portfolio
Western Asset Management	Bonds	Passive Government Bond Portfolio
CBRE Capital Advisors (formally CBRE Real Estate)	Property	
Partners Group	Infrastructure	
Baillie Gifford	Absolute Return	

The sub-committee monitors the performance of managers with independent performance reports presented to each quarterly meeting and a formal review of arrangements carried out during each Council term.

## Investment Performance

During the year, the equity managers performed as follows:-

- Blackrock, the UK passive manager, produced marginally above the benchmark return mandated (+22.00% compared to the benchmark of +21.95%);



- Baillie Gifford's Long Term Global Growth mandate, with its unconstrained global equity mandate, returned in excess of the benchmark in 1 year (+36.40% compared to the benchmark of +31.92%), 3 years (+21.79% compared to the benchmark of +16.13%), 5 years (+18.63% compared to the benchmark of +14.86%) and since appointed (+12.41% compared to the benchmark of +9.02%);
- Lazard Asset Management, the second unconstrained manager, although producing portfolio returns of 8.63% since appointment in 2006, still underperformed against benchmark across all periods.
- State Street Global Investors was funded in November 2013 in its RAFI Fundamental Indexation Fund. It matched its 2016/2017 benchmark with a return of 35.97%.

The bond managers hold 15% of the fund assets (against a benchmark of 20%) and points to note on these assets are:-

- Western Asset Management slightly outperformed in the 1 year (10.36% against a benchmark of 10.25%), underperformed in the 3 year period (8.03% against a benchmark of 8.51%), matched the benchmark of 6.73% in the 5 year period and has underperformed the benchmark of 6.22% by 0.57% since appointed; and
- At the end of September 2016, the portfolio managed by Henderson Global Investors (HGI) was divided into an Active Corporate Bond portfolio and a Passive Government Bond portfolio. Performance history was linked to the Active Corporate Bond portfolio. In the 1 year on the Active Corporate Bond portfolio, HGI returned 14.62% against a benchmark of 15.17%. HGI underperformed its benchmark of 11.29% by -0.77% in the 3 years and its 5 year benchmark of 7.87% by -0.38% in the 5 years.

Of the remaining mandates:-

- CBRE's property portfolio underperformed its 1 year benchmark of +3.72% by 0.76%. It underperformed its 3 year benchmark of +10.19% by 0.97% and its 5 year benchmark of +8.61% by 1.28%. Since appointed, CBRE is ahead of its benchmark: +5.40% versus a benchmark of +4.65%;
- the Baillie Gifford Diversified Growth mandate (the absolute returns type fund), returned +10.75% against its benchmark of +0.38% in the year, +5.51% against the benchmark of +0.46% in the 3 years, and +5.63% against the benchmark of +0.48% in the 5 year period;
- infrastructure is managed by Partners Group; the mandate continues to be gradually funded to the extent of 5% of the Fund. Currently, approximately 2% (£46m) of the fund value is invested in infrastructure. At 31 March 2017, £1.3m is held in the Standard Life Investments Liquidity Fund, for future investment in infrastructure; and
- additional, uncommitted cash (£89m) is held in the Northern Trust Sterling Liquidity Fund. The strategy for this cash is currently under consideration and should be complete by 31 December 2017.

(All performance reported above is Net of Fees)

## **Structure of Administration**

### **Administration Arrangements**

#### **The Pensions Team**

The team is accountable to the Pensions sub-Committee, scheme employers and members. The team is committed to providing a quality service to all its stakeholders.

The team administers the Fife Pension Fund, in accordance with legislative requirements, in the following areas:

- administration of pension records
- calculation and payment of retirement benefits and transfer values
- provide guidance to scheme members and employers

The Council recognises the importance of developing team members to a professional standard in order to provide an efficient and effective service to members and employers. Development and training needs are identified through the contribution management process to ensure that the relevant pension knowledge is acquired, maintained and developed. Team members are encouraged to obtain a recognised professional pension qualification through the Chartered Institute of Payroll and Professionals.



Training is delivered in-house, at LGPS Secretariat workshops and training events organised by our software supplier, Aquila Heywood.

## Administration Performance

### Pension Administration Strategy

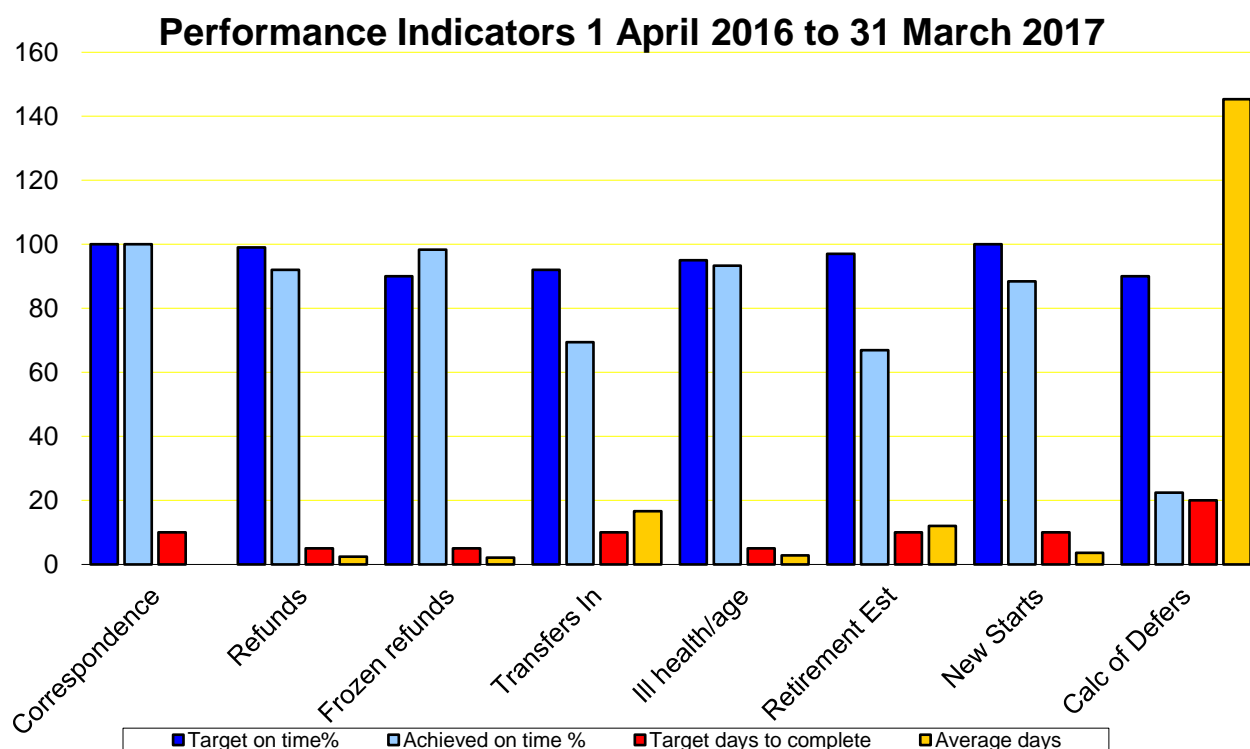
The Fund's Pension Administration Strategy Statement effectively consolidates all roles, responsibilities, and expected performance targets for the team and scheme employers in one document. The statement can be accessed at: [www.fifedirect.org/lgps](http://www.fifedirect.org/lgps).

### Performance Standards

Key performance indicators are prepared quarterly for management and, if requested, on an annual basis to employers.

The chart below provides performance data on the team's key targets for 2016-17.

### Performance Chart 2016-17



2016-17 has been another challenging year for the Team. As can be seen, the team did not meet all its performance targets. This was due to a variety of reasons. These include embedding the new scheme, staff departures, increased workloads resulting from employer workforce change exercises and issues with the accuracy of year end information from some of our employers. The introduction of freedom and choice legislation from April 2015 has continued to generate a number of queries from members although there has not been a marked increase in the number of members actually transferring their benefits out of the Fund. On a positive note, the team exceeded our target in processing with frozen refunds and met its target in dealing with correspondence.

The team's performance is continually monitored to ensure improvements are made in all areas. Consequently, the team has extended the range of tasks that we report on to include processing new entrants to the scheme and calculation of deferred benefits for early leavers, to provide a more comprehensive indication of how the team is performing.

### **CIPFA Benchmarking Club**

The Fund continues to participate in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking survey.

Our unit cost per member for the most recent year (2015-2016) was £25 compared to the club average of £18.92. A breakdown shows that the difference is due, in part, to significantly higher indirect costs. Funds use different methods when calculating their indirect costs to apportion overheads.

### **Use of Information Technology**

2016-17 witnessed significant two IT developments.

Following extensive development and testing, Member Self Service was introduced in 2016. This application allows members to access and edit the information held on their pension records, perform benefit calculations and view annual benefit statements through a secure website.

iConnect, a software application from Aquila Heywood, the Fund's software supplier, is now fully integrated with the Council's payrolls. iConnect identifies and processes new members, leavers and changes to payroll records and then updates members' pension records accordingly after each payroll run, thereby delivering greater efficiencies.

### **National Fraud Initiative**

The Council participates in the National Fraud Initiative. This is a counter-fraud initiative led by Audit Scotland.

### **Tell Us Once (TUO)**

The Fund participates in the 'Tell Us Once' service offered by registrars when deaths are registered. The quicker notification of deaths via TUO reduces the incidences of overpayment of pensions and unnecessary bureaucracy for bereaved relatives.

### **Communications**

Effective communication is vital to ensure both members and employers are aware of the benefits of the LGPS and are also kept up to date with scheme changes.

The fund is required to have a formal written communications statement which can be viewed at Appendix D and also at [www.fifedirect.org.uk/lgps](http://www.fifedirect.org.uk/lgps).

During the year, active members received a newsletter giving updates on the new scheme. Pensioner and deferred members also received a newsletter.

The mini site's content has been extended to include information on tax controls and there is a more comprehensive range of forms and policy documents. Scheme guides are kept up to date reflecting regulation amendments.

A specific communication exercise focussed on the changes to the Lifetime Allowance and Annual Allowance, effective from 6 April 2016.

Presentations are also offered, on request, by the team to employees and employers, outlining the features and benefits of the scheme.

### **Working with Scheme Employers**

The team liaised closely throughout the year with participating employers to ensure employer discretionary policies are in place and that employers are fully aware of the data requirements of the new scheme. The trend of employers requiring additional help relating to staffing reduction exercises has continued.

The Annual Employers' Forum was held on 14 March 2017, and as with previous years, it was well attended. The Forum focussed on the 2017 Fund valuation.

### **Internal Dispute Resolution Cases**

Any queries from members are directed, in the first instance, to the Team to resolve. If a member is still unhappy with the decision then, following dispute rules, the member may ask their case be referred to the Council's Chief Legal Officer, the appointed person, under the dispute framework.

During the year to 31 March 2017, the Chief Legal Officer dealt with 9 cases. All cases concerned the employer's refusal to grant ill health retirement, or to bring deferred benefits into payment early on ill health grounds, or the level of ill health benefits awarded. The employer decision was upheld in 1 case, was not upheld in 2 cases and decisions are pending with the other 6 cases.

## Fund Update

Membership details are shown below along:-

Member status	2016-17	2015-16
Active members	16,318	16,123
Pensioners	11,994	11,488
Deferred members	5,663	5,639
<b>Total</b>	<b>33,975</b>	<b>33,250</b>

## Employer Bodies

The fund invested and administered pensions on behalf of 30 current and former employers during 2016-17. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies which chose to join the fund. The detailed listing of employers is contained on page 49 of the Annual Report and Accounts for the Fund.

## Pension Increases

Public service pensions in payment, together with those that are deferred for payment at a future date, are indexed annually based on the annual change in the Consumer Price Index (CPI) measured as at the previous September.

In the 12 months to September 2015, CPI was negative (-0.1%). As a result, no inflationary increase was applied from 11 April 2016 to either LGPS pensions in payment or deferred pensions. As there was no increase, the UK Government did not issue a Pensions Increase (Review) Order for 2016.

The introduction of the new State Pension also impacts on members with a Guaranteed Minimum Pension. On 6 April 2016, HM Treasury issued a revised note confirming that public service pension schemes, including the LGPS, will be responsible for paying full pension increases on Guaranteed Minimum Pensions for members who reach State Pension age between 6 April 2016 and 5 December 2018 inclusive. The team ensured that the pension payroll was amended accordingly.

The UK Government commenced a consultation on GMP indexation and equalisation for those members reaching State Pension Age after 5 December 2018.

## The Pensions Regulator

In April 2015, the Pensions Regulator (TPR) published its Code of Practice No: 14 Governance and Administration came into force on 1 April 2015. The Code sets out the legal requirements and standards of conduct for the administration, management and governance of public service pension schemes.

In accordance with the Code, the Team developed a reporting breaches of the law policy statement. The policy was presented and agreed at the August sub-Committee meeting.

In October 2016, the Pensions Regulator launched a self-assessment tool designed to help those involved in running public service pension schemes identify very practical actions to improve governance and administration in their scheme. The Fund volunteered to test the tool and provided feedback on its contents.

## **Triennial Valuation and Funding Strategy**

An actuarial valuation was undertaken as at 31 March 2014 placing a value on the fund's assets and liabilities at that time. It showed there was a pension deficit. The fund's assets were valued at £1.589bn and the fund's liabilities were valued at £1.811bn, resulting in a funding level of 87.8%. This meant there was a shortfall of assets to the assessed cost of members' benefits of £221m. However, the funding level was slightly higher than the 87% funding level as at 31 March 2011. Although the deficit had increased by £39m since 2011, the market value of assets had increased from £1.283bn as at 2011 largely due to investment returns.

The 2014 valuation results can be viewed at [www.fifedirect.org.uk/lgps](http://www.fifedirect.org.uk/lgps).

The fund is due to be revalued in 2017 and work has commenced.

## **Future Years**

We will continue to face challenges including potential volatility in the investment markets, a potential increase in interest rates and greater use of technology with the introduction of self service for members and employers. We are in a strong position to deal with the challenges and ensure that the pension fund is managed effectively and we continue to protect members' interests.

## **CARE Scheme Revaluation**

The Local Government Pension Scheme (Scotland) Regulations 2014 require that pension accounts built up from 1 April 2015 are revalued at the end of each scheme year via a revaluation adjustment.

The Public Service Pensions Revaluation (Prices) Order 2016 confirmed the negative 0.1% revaluation rate for 2015-16 pension accounts. For those members who left during 2015-16, the negative 0.1% revaluation was applied on a proportionate basis based on date of leaving.

## **Acknowledgements**

We would like to thank elected members and officers of the Council for all of their work during 2016-17. The production of the accounts is very much a team effort and again the accounts were completed by the 30 June deadline.

Steven Grimmond  
Chief Executive  
28 September 2017

Eileen Rowand  
Executive Director Finance and Corporate Services  
28 September 2017

Councillor Dave Dempsey  
Convener of the Superannuation Fund and Pensions Sub-Committee  
28 September 2017

# **PENSION FUND GOVERNANCE STATEMENT**

## **Introduction**

Fife Council Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded scheme created under the terms of the Public Services Pension Act 2013. Fife Council is the body appointed to act as the Administering Authority for the scheme.

Fife Council, as Administering Authority, has statutory responsibility for the administration of the Local Government Pension Scheme for Fife Council and scheduled and admitted bodies in Fife. This responsibility requires specific governance arrangements and control which sit within Fife Councils overall governance framework.

## **Pension Fund Responsibilities**

The Pension Fund is responsible for ensuring its business is conducted in accordance with the Public Services Pensions Act 2013 which provides the framework for the governance arrangements of public sector pension schemes, including greater regulatory oversight of schemes by the Pensions Regulator.

The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 introduced the new statutory governance framework for Scottish LGPS Funds, setting out the mandatory role of the Scheme Manager (each Administering Authority for the LGPS in Scotland) and the establishment of the national Scheme Advisory Board and local Pension Boards to improve governance arrangements.

As administering authority for the Fund, the Council is responsible for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility the Superannuation and Pension Fund Sub-Committee is implementing proper arrangements (known as the governance framework) for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Fife Council approved and adopted a Code of Corporate Governance (the Code) which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE (Chartered Institute of Public Finance & Accountancy/Society of Local Authority Chief Executives and Senior Managers) Framework "Delivering Good Governance in Local Government". The work of the Fife Council Pension Fund is governed by this Code and by regulations specific to administration of pension funds.

In 2016-17, the Fund, adopted its own governance checklist; developed by Hymans Robertson (Pension Fund Actuary); to aid self-assessment against the framework. This allows the Fund to be monitored against the requirements measured by the Pension Regulator's Code of Practice No.14.

The Fund is also subject to internal review which offers a measure of reliance on the effectiveness of controls and measurement of risk. It also offers a route for robust governance and improvement by continuing to implement and embed controls and risk management which will ensure full compliance with the Code's requirements.

## **Purpose of the Governance Framework**

The governance framework comprises the systems and processes, culture and values by which the Pensions Fund is directed and controlled and the activities through which it engages with and informs employers and members. It enables the Fund to monitor its achievements to its strategic objectives and to consider whether these objectives have led to the delivery of appropriate outcomes.

The system of internal control is significant to the management of the risks associated with the Fund. It cannot eliminate elements of risk; neither can it eliminate the potential risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The level of internal controls is significant in managing the level of risk and the prioritisation of risks to the achievement of the Funds objectives, to evaluate the likelihood of the risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. In terms of the investments, the Pensions Fund has appropriately qualified professional advisers to minimise its exposure.

## **The Funds Governance Framework**

The key responsibilities of the systems and processes that comprise the Funds governance arrangements sit with:

### **Superannuation Fund and Pensions Sub-Committee**

#### **Delegation**

Fife Council delegates all pension scheme matters to the Superannuation Fund and Pensions Sub-Committee. The Sub-Committee comprises of nine elected members of Fife Council; in addition there are two employee representatives and two admitted bodies' representatives who are non-voting members. The Corporate Code of Governance clearly defines the roles and responsibilities for the Sub-Committee.

#### **Terms of Reference**

The Sub-Committee arranges for the supervision of the management and administration of the investments of the Superannuation Fund, common good fund and all trust funds and makes decisions in regard to the appointment of fund managers. The committee considers the strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives as defined in the Code. All reports considered by the Sub-Committee identify how key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues which may arise.

Members of the sub-committee and the pension board are required to undergo specific training to meet the needs of the role and responsibility of the Management of the Fund with clear delegation arrangements and protocols for communication.

Training is delivered by a number of means including external seminars and events, training provided at Committee meetings by external advisers and Council Officers and also briefing papers. Training activity undertaken is recorded in training registers; individual training plans are being developed.

Work is ongoing to produce a documented scheme of delegation to show the interaction between the Sub-Committee; Pension Board; Actuary and Fife Council.

The Sub-Committee's Terms of Reference are detailed in Fife Council's Scheme of Administration which can be viewed at:

[www.fifedirect.org.uk/uploadfiles/publications/c64\\_SchemeofAdministration040815.pdf](http://www.fifedirect.org.uk/uploadfiles/publications/c64_SchemeofAdministration040815.pdf)

The Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation of a number of key documents including a Statement of Investment Principles and a Funding Strategy Statement, which can be viewed at: [www.fifedirect.org.uk/lgps](http://www.fifedirect.org.uk/lgps). In addition to setting out the Fund's objectives, these documents also detail the controls in place to mitigate the risks facing the Fund.

#### **Frequency of Sub-Committee Meetings**

Meetings of the Sub-Committee are quarterly. Occasional ad hoc meetings are also held as required. Committee meeting dates are listed on the Council diary which is available at [www.fifedirect.org.uk/news/committees](http://www.fifedirect.org.uk/news/committees).

### **The Fife Pension Board**

The Fife Pension Board has been established to assist Fife Council:

- In securing compliance with LGPS Regulations and other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator; and
- In ensuring the efficient and effective governance and administration of the scheme

The Pension Board comprises 4 employee representatives appointed by Trade Unions and 4 employer representatives. It meets concurrently with the Pensions Sub-Committee and considers the same agenda. In addition, the Pension's Board may meet separately to consider sub-committee decisions giving an additional level of assurance.

The Board's Constitution, which sets out the terms, structure and operational procedures of the Board, and information on each of the representatives, can be found at [www.fifedirect.org.uk/lgps](http://www.fifedirect.org.uk/lgps)

## **Executive Director of Finance and Corporate Services**

The Council's Executive Director Finance and Corporate Services is the Officer with responsibility to ensure proper administration of the Council's financial matters in terms of Section 95 of the Local Government (Scotland) Act 1973. The Executive Director is responsible both for the Council's role as employer and administering authority; as such has responsibility to ensure appropriate controls are in place to:

- Safeguard the contributions made by employees and employers to provide funds to meet the future liabilities of the Fund's members;
- Ensure control over the investment managers charged with growing the value of the fund to meet the future liabilities; and
- Secure payment to the retired members of the Fund.

In addition the arrangements also include the following:-

- Responsible for the financial accounting of the Fund;
- Responsible for the preparation of the Pension Fund Annual Report;
- Responsible for implementing the decisions of the Sub-Committee and for the day to management of the affairs of the Fund.

Internal Audit provide the required assurance over the controls operated by the Fund.

## **External Advisers**

Hymans Robertson is the Actuary to the Fund and provides advice on Funding, actuarial valuations and investment strategy.

The Fund has appointed investment managers who are delegated the responsibility of investing the assets of the Fund. These functions although carried out by same actuary company are within different divisions in the company as such there are clear segregation of functions.

Northern Trust is the global custodian for the Fund and is responsible for the safekeeping of assets including transaction processing and making tax claims.

Fife Council continues to support responsible ownership and this is recognised in the Statement of Investment Principles. In February 2013, the Sub-Committee agreed to appoint Hermes Equity Ownership Services, through a framework with Lothian Pension Fund. Hermes helps institutional owners around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes undertakes engagement with businesses on areas of concern and are actively involved in lobbying for improved governance in companies around the world.

## **Review of effectiveness**

### **Internal Control**

The Council and the Pension Fund have robust systems of internal controls in place to manage administrative, management and investment risks. The system of internal control is an ongoing process designed to identify and prioritise risks to the achievement of the Fund's policies, aims and objectives to evaluate the likelihood of those risks being realised and the likely impact.

The Fund has adopted a self-assessment tool which reflects the governance checklist ensuring compliance with the Pension Regulations. Results of the current review will be reported to the Sub-Committee. The risk register will be updated regularly and any high risks will be reported to the Sub-Committee.

Audit and Risk Management Services Division provides the internal audit for Fife Council, including the Fife Council Pension Fund and operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which apply to Local Government. This was confirmed by their External Quality Assessment report in April 2017. The Division undertakes an annual programme of work based on a five year strategic audit plan, including the Council's roles as both Administering Authority and Scheme Employer.

A governance report this year by Audit and Risk Management gave rise to a number of agreed actions, including a review in the coming year of the procedures for compiling the Annual Governance Statement. There was a technical breach of the mandated target for issuing Annual Benefits Statements in August 2016. Following this procedures were reviewed and in 2017, statements were issued on time. Notwithstanding these findings, it is our opinion that the arrangements continue to be fit for purpose.



Fife Council, including the Fund, is subject to external audit. The auditors are appointed by Audit Scotland. An audit opinion is provided separately in the Fund's Annual Report and Accounts.

## **Risk Management**

The Council has a risk management policy which includes a regular review of a risk register. The risk management policy also covers the Pension Fund. In 2016-17, a fund specific risk register was developed.

Risk awareness is embedded into the investment performance management process.

## **Governance Compliance**

The Local Government Pension Scheme (Scotland) Regulations 2014 require each Administering Authority to publish a Governance Compliance Statement, detailing how their governance arrangements comply with best practice guidance issued by Scottish Ministers. Details of how the Fund complies are included in the Governance Compliance Statement (Appendix A).

## **Access to Information**

- The Sub-Committee agenda papers and minutes can be viewed at [www.fifedirect.org.uk/news/committees](http://www.fifedirect.org.uk/news/committees); and
- The Fund's Annual Reports, Governance Statement, including other supporting statements and policies are available on: [www.fifedirect.org.uk/lgps](http://www.fifedirect.org.uk/lgps).

All of the above mentioned documents are also available in hard copy form on request.

## **Certification**

It is our opinion, in light of the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance. We consider the governance and internal control environment operating during the financial year from 1 April 2016 to 31 March 2017 to provide reasonable and objective assurance that any significant risks impacting on the council as administering authority and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified, and actions have and will be taken to avoid or mitigate the impact of any such risks.

Where areas for improvement have been identified and action plans agreed, we will ensure that they are treated as priority and progress towards implementation is reviewed through the governance structures and processes established for the council as administering authority and summarised herein. We will continue to review and enhance, as necessary, our governance arrangements

Steven Grimmond  
Chief Executive  
28 September 2017

Councillor Dave Dempsey  
Convener of the Superannuation Fund and Pensions Sub-Committee  
28 September 2017

## GOVERNANCE COMPLIANCE STATEMENT

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
<b>Structure</b>				
1.1	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Responsibility rests with the Superannuation Fund and Pensions Sub Committee, a sub-committee of Fife Council. The Council's Scheme of Administration sets out the Sub-Committee's remit. The Standards and Audit Committee has responsibility for governance including the Annual Accounts.	Yes	
1.2	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.	The sub-committee is made up of 9 councillors from Fife Council, 2 non voting representatives selected by the Joint Negotiating and Consultative Forum (JNCF) and 2 non voting admitted bodies representatives. The establishment of the Pension Board has formalised the involvement of employers and trade unions representing the membership.	Yes	
1.3	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable – there is no secondary committee or panel.		
1.4	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 applicable – there is no secondary committee or panel.		

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
<b>Representation</b>				
2.1	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.	The Sub-Committee and Pension Board meet jointly.		
	These include:-			
	i) employing authorities (including non-scheme employers, e.g. admitted bodies);	Fife Council is represented. Admitted Bodies are represented by 2 non voting representatives. The Board has 4 employer representatives.	Yes	
	ii) scheme members (including deferred and pensioner scheme members);	Scheme members, including deferred and pensioner scheme members, are represented by two non-voting representatives selected by the JNCF. The Board has 4 employee representatives appointed by the Trade Unions.	Yes	
	iii) where appropriate independent professional observers;	Independent professional observers are invited on the sub-committee on ad hoc basis as agreed at the August 2011 committee.	Yes	
	and			
	iv) expert advisors (on an ad-hoc basis)	Attend as required.	Yes	
2.2	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members, voting and non-voting i.e. observers, and Board representatives receive the same access to all papers and training and are given the opportunity to participate fully in the decision making process.	Yes	
<b>Selection and Role of Lay Members</b>				
3.1	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.	All new members of the sub-committee are offered induction training, including guidance from the Council's Legal Services Division about their role and responsibilities.	Yes	
3.2	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.	Noted on every sub-committee agenda paper.	Yes	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
<b>Voting</b>				
4.1	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.	The 9 councillors have voting rights. Non voting members are able to play a full role. Section 14 of the Local Government & Housing Act 1989 states a member of a committee who is not a member of that authority shall be treated as a non-voting member. However, the administering authority has discretion over this matter. This discretion has not been adopted.	Yes	
<b>Training/Facility Time/Expenses</b>				
5.1	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.	All new members of the sub-committee are offered training by officers. During the year further training is offered, generally from officers and investment managers of the Fund. In addition, if officers identify other training opportunities which may include attendance at conferences or seminars, then these are offered to the committee as appropriate.	Yes	
		Costs and expenses incurred are met by the Pension Fund.		
5.2	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.	Applies to all members of sub-committee and the Board.	Yes	
5.3	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Training is offered on an ad hoc basis as needs are identified and also as appropriate. Training is identified from a variety of sources. The adoption of an annual training programme has been considered however, it has been agreed that a flexible approach to the needs of the committee be adopted. A register of attendance is held.  The CIPFA Knowledge & Skills Framework Training Needs Analysis has been issued to members to inform ongoing training needs.	Yes	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
<b>Meetings (frequency/quorum)</b>				
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	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.	Not applicable – there is no secondary committee or panel.		
6.3	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum held annually, also open days held for members. The Pension Board formally provides for stakeholder involvement.  Presentations provided on request.	Yes.	
<b>Access</b>				
7.1	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.	All members, Board representatives and observers are treated equally in terms of access to papers, documents and advice.	Yes	
<b>Scope</b>				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the sub - committee includes all pension related matters within the terms of Local Government Pension Scheme legislation and the Pensions Regulator requirements.	Yes	

	<b>Compliance Standard</b>	<b>Arrangements in Place/Action Taken</b>	<b>Action Complies with Principle?</b>	<b>Reason for non-compliance</b>
			<b>Yes / No / Partial</b>	<b>(if applicable)</b>
<b>Publicity</b>				
9.1	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.	The Annual Governance Statement and Governance Compliance statement are available on the Council's Pensions mini site and are included in the Pension Fund Annual Report.	Yes	

Steven Grimmond  
Chief Executive  
28 September 2017

Councillor Dave Dempsey  
Convener of the Superannuation Fund and Pensions Sub-Committee  
28 September 2017

## **ACTUARIAL STATEMENT**

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### **Description of Funding Policy**

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:-

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required 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 still a better than

2/3rds 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 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2014. This valuation revealed that the fund's assets, which at 31 March 2014 were valued at £1.589bn, were sufficient to meet 87.8% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £221m.

Individual employers' contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the fund's funding policy as set out in its FSS.



## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2015. The report can be viewed at: [www.fifedirect.org.uk/lgps](http://www.fifedirect.org.uk/lgps)

### 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 to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

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

The key financial assumptions adopted for the 2014 valuation were as follows:-

Financial Assumptions	31 March 2014	
	% p.a. Nominal	% p.a. Real
Discount rate	5.10%	2.40%
Pay increases	3.70%	1.00%
Price inflation/Pension increases	2.70%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:-

	Males	Females
Current Pensioners	22.0 years	23.7 years
Future Pensioners*	24.1 years	26.4 years

\* Currently aged 45.

Copies of the 2014 valuation report and Funding Strategy Statement are available on request from Fife Council, the Administering Authority to the fund.

## **Experience over the period since April 2014**

The Fund's experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen sharply which places a significantly higher value on liabilities. The effect of this will have been partially offset by strong asset returns. The overall impact on the funding position at 31 March 2017 is that funding levels have likely worsened and deficits increased since the last formal valuation. This excludes the impact of possible changes to funding assumptions for the 2017 formal valuation, and membership experience which will be measured as part of that valuation, these items may improve or worsen the funding position.

Geoff Nathan FFA

Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
11 May 2017

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

## REMUNERATION REPORT

The Pension Fund does not directly employ any staff. We have therefore not included a remuneration report within the Annual Report.

All staff are employed by Fife Council, and their costs reimbursed by the Pension Fund.

The members of the Superannuation Fund and Pensions Sub-Committee and Pension Board are also remunerated by Fife Council.

Details of Councillor and Senior Employee remuneration can be found in the accounts of Fife Council on the Council's website [www.fifedirect.org.uk](http://www.fifedirect.org.uk)

## STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

### The Administering Authority's Responsibilities

The Authority is required:-

- to make arrangements for the proper administration of the financial affairs of the Fife Pension Fund and to secure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Executive Director Finance and Corporate Services;
- to manage the affairs of the Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets;
- to 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); and
- to consider the unaudited accounts no later than 31 August and to approve the audited accounts by 30 September.

I certify that these Annual Accounts were approved for signature by, or on behalf of, the authority.

Signed on behalf of Fife Council

Councillor Dave Dempsey  
Convener of the Superannuation Fund and Pensions Sub-Committee  
28 September 2017

## **Responsibilities of Executive Director Finance and Corporate Services**

The Executive Director Finance and Corporate Services is responsible for the preparation of the 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 statement of accounts, the Executive Director Finance and Corporate Services has:-

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

The Executive Director Finance and Corporate Services has also:-

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

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2017.

Eileen Rowand  
Executive Director Finance and Corporate Services  
28 September 2017

## Fife Pension Fund Accounts

### Fund Account

The Fund Account sets out all income and expenditure of the Pension Fund.

2015-16			2016-17
£m		Notes	£m
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(86.015)	Contributions Receivable	6	(91.091)
(1.202)	Transfers in from other pension funds		(3.059)
(87.217)			(94.150)
69.522	Benefits Payable	7	74.209
2.804	Payments to and on Account of Leavers	8	3.524
72.326			77.733
<b>(14.891)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(16.417)</b>
9.436	Management Expenses	9	8.640
<b>(5.455)</b>	<b>Net additions/withdrawals including fund management expenses</b>		<b>(7.777)</b>
	<b>Returns on investments</b>		
(22.533)	Investment Income	10	(22.841)
0.054	Taxes on income		0.094
5.193	Profit and losses on disposal of investments and changes in the market value of investments	11a	(377.800)
<b>(17.286)</b>	<b>Net return on investments</b>		<b>(400.547)</b>
<b>(22.741)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(408.324)</b>
1,830.888	Opening net assets of the scheme at 1 April 2016		1,853.629
22.741			408.324
<b>1,853.629</b>	<b>Closing net assets of the scheme at 31 March 2017</b>		<b>2,261.953</b>

## Fife Pension Fund Accounts

### Net Asset Statement

The Net Asset Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represents the funds available to provide for pension benefits as at 31 March 2017.

2015-16			2016-17
£m		Notes	£m
	<b>Investments</b>		
1,853.811	Investment Assets	11a	2,259.110
<b>1,853.811</b>	<b>Total net investments</b>		<b>2,259.110</b>
	<b>Current Assets</b>		
1.011	Contributions due from Employers		4.674
1.361	Cash Balances		1.506
2.880	Debtors	17	3.521
<b>5.252</b>			<b>9.701</b>
	<b>Current Liabilities</b>		
(3.149)	Unpaid Benefits		(3.277)
(2.285)	Other Current Liabilities		(3.581)
<b>(5.434)</b>			<b>(6.858)</b>
<b>(0.182)</b>	<b>Net Current Assets &amp; Liabilities</b>		<b>2.843</b>
<b>1,853.629</b>	<b>Net Assets of the fund available to fund benefits at the end of the year</b>		<b>2,261.953</b>

**Note:** The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the year end. The actuarial present value of promised retirement benefits is disclosed at Note 16.

The unaudited financial statements were issued on 30 June 2017 and the audited accounts were authorised for issue by Eileen Rowand, Executive Director Finance and Corporate Services on 28 September 2017.

Eileen Rowand  
Executive Director Finance and Corporate Services  
28 September 2017

# Notes to the Fife Pension Fund Accounts for the year ended 31 March 2017

## 1 Description of Fund

The Fife Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Fife Council. The council is the reporting entity for this fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Fife Pension Fund Annual Report 2016-17 and the underlying statutory powers underpinning the scheme.

### General

The scheme was established under the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the local Government Pension Scheme (Scotland) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) (Scotland) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010

It is a contributory defined benefit pension scheme administered by Fife Council to provide pensions and other benefits for pensionable employees of Fife Council and a range of other scheduled and admitted bodies within the Fife area. Teachers are not included as they come within other national pension schemes.

The fund is overseen by the Superannuation Fund and Pensions Sub-Committee which is a committee of Fife Council.

### Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. The fund is also open to elected members of the Council.

Organisations participating in the fund include the following:

- Scheduled bodies which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 30 employer organisations within the fund (including Fife Council itself), and over 28,000 individual members as detailed below.

<b>Fife Council Pension Fund</b>	<b>31 March 2017</b>	<b>31 March 2016</b>
Number of employers	30	29
<b>Number of employee in scheme</b>		
Fife Council	14,127	13,984
Other employers	2,191	2,139
<b>Total</b>	<b>16,318</b>	<b>16,123</b>
<b>Number of pensioners</b>		
Fife Council	11,162	10,760
Other employers	832	728
<b>Total</b>	<b>11,994</b>	<b>11,488</b>
<b>Deferred Members</b>	<b>5,663</b>	<b>5,639</b>
<b>Total number of members</b>	<b>33,975</b>	<b>33,250</b>



## 1 Description of Fund ( continued )

### Funding

Benefits are funded by contributions and investment earning. Contributions are made by active members of the fund in accordance with the Local Government Scheme Regulations (Scotland) 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations.

### Benefits

Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	Service post 1 April 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x pension. In addition part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up,

From 1 April 2015, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at the accrual rate of 1/49th . Accrued pension is uprated annually in line with the Consumer Price Index.

## 2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2016-17 financial year and its position at the year end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on International Accounting Standard (IAS) 19 basis, is disclosed at Note 16 of these accounts.

### 3 Statement of Accounting Policies

#### a) General

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, (the Code) which incorporates the International Financial Reporting Standards, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for Pension Funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2015, such as the format of the accounting statements.

#### b) Accruals

In accordance with the Code, the Accounts and related Statements have been compiled on an accruals basis. Accruals are made for all material debtors and creditors within the accounts. An exception to the accrual principle is in relation to pension transfer values received and or paid out, where these are accounted for on a cash basis as required by the Statement of Recommended Practice on Pension Fund Accounts.

#### c) Valuation of Investments

Quoted investments are generally valued at closing prices; these prices may be the last trade prices or bid prices, depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates at close of business.

#### d) Foreign Currency Transactions

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date.

#### e) Contributions and Benefits

Contributions and benefits are accounted for in the period in which they fall due. Normal contributions received during the year have been in accordance with Scheme rules and Actuary recommendations.

#### f) Transfer Values

Transfers of pension benefits between the Local Government Scheme and other schemes for new employees and former employees, is on a cash basis, the amount of transfer having been agreed between both parties

#### g) Investment Income

Dividends and interest are accounted for when the securities are quoted ex-dividend. Interest on bank deposits is accounted for as it accrues.

#### h) Administrative and Investment Management Expenses

Administrative expenses and investment management expenses are met by the Fund directly on a negotiated basis and accrued in full each year. These expenses now reflect direct and indirect costs, including those deducted directly from capital, which is a change in accounting policy from previous years.

#### i) Cash and Cash Equivalents

Cash is defined as cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

#### j) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

#### k) 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.

### 3 Statement of Accounting Policies ( continued )

#### l) 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 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 the asset are recognised by the fund.

#### m) Financial Liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

#### n) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of note to the net asset statement (Note 16).

#### o) Additional Voluntary Contributions (AVC)

All local government Pension Funds have an arrangement where members can invest money, deducted directly from pay, through an AVC provider to increase pension benefits.

Fife Council's current AVC providers are Standard Life and Prudential. Former providers, Clerical Medical and Equitable Life, no longer accept new admissions.

#### p) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair value at bid prices and liabilities fair value at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from, or owed, to the broker are the amounts outstanding in respect of the initial margin and variation margin.

#### q) Fair value measurement

The Fund measures its financial assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

**Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;

**Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

**Level 3** – unobservable inputs for the asset or liability.

#### 4 Critical Judgements in Applying Accounting Policies

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

This 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 16.

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

#### 5 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the fund about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The fund engages an Actuary to provide expert advice on these assumptions.	The impact on net liabilities of changes to the principal assumptions is shown in Note 16
Financial Assets and Liabilities measured at fair value	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using recognised valuation techniques but as these investments are not publically listed there is a degree of estimation involved in the valuation.	There is significant level of assumption in the valuation of £170m of these assets and it estimated that the potential impact of uncertainty is in the range of £34.6m
Investment expenses deducted from capital	Quantification of investment management expenses deducted from the capital value of investments involves asking the relevant managers for information and only some of this information can be independently verified. Where the charges relate to an investment as a whole, an estimate is made of the costs applicable to the holding owned by Fife Council Pension	There is a risk that the cost of investment management expenses deducted from capital may be under or overstated. However, as the costs are included in the fund account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the fund for the year.

## 6 Contributions Receivable

### By Category

2015-16		2016-17
£m		£m
(17.603)	<b>Employees' Contributions</b>	(17.881)
	Employers' Contributions	
(66.016)	Normal contributions	(69.478)
(2.396)	Augmentation contributions	(3.732)
<b>(68.412)</b>	<b>Total employers' contributions</b>	<b>(73.210)</b>
<b>(86.015)</b>		<b>(91.091)</b>

### By authority

2015-16		2016-17
£m		£m
(73.399)	Fife Council	(77.190)
(5.389)	Scheduled bodies	(5.348)
(7.227)	Admitted bodies	(8.553)
<b>(86.015)</b>		<b>(91.091)</b>

## 7 Benefits Payable

### By Category

2015-16		2016-17
£m		£m
52.211	Pensions	54.814
14.994	Lump sum retirement benefits	17.150
2.317	Lump sum death benefits	2.245
<b>69.522</b>		<b>74.209</b>

### By authority

2015-16		2016-17
£m		£m
64.547	Fife Council	67.549
2.780	Scheduled bodies	3.048
2.195	Admitted bodies	3.612
<b>69.522</b>		<b>74.209</b>

## 8 Payments to and on Account of Leavers

2015-16		2016-17
£m		£m
0.277	Refunds to members leaving service	0.227
0.026	State Scheme Premiums	0.079
	Transfers to other Schemes	
2.501	Individuals	3.218
<b>2.804</b>		<b>3.524</b>

## 9 Management Expenses

2015-16		2016-17
£m		£m
1.376	Administrative costs	1.156
7.777	Investment management expenses	7.286
0.283	Oversight and governance costs	0.198
<b>9.436</b>		<b>8.640</b>

Included in the oversight and governance costs is the external audit fee of £0.033m ( £0.039m 2015-16)

### 9a Investment Management Expenses

2015-16		2016-17
£m		£m
6.349	Management fees	5.712
0.169	Custody fees	0.417
1.259	Transaction costs	1.157
<b>7.777</b>		<b>7.286</b>

No performance related fees were paid during financial years 2016-17 or 2015-16

## 10 Investment Income

2015-16		2016-17
£m		£m
(4.269)	Fixed interest securities	(4.930)
(4.331)	Equity dividends	(3.468)
(0.366)	Index-linked securities	(0.448)
(7.757)	Pooled property investments	(7.447)
(5.075)	Pooled investments	(4.599)
(0.442)	Interest on cash deposits	(0.802)
(0.293)	Other	(1.147)
<b>(22.533)</b>		<b>(22.841)</b>

## 11a Reconciliation of Movements in Investments and Derivatives

The value of investment assets has increased by £405.299m in the year. Trading gains and market value movements accounted for £377.8m, of which £303.9m were unrealised.

The change in value in the year is analysed as follows:-

	Value at 1 April 2016	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Movement in Cash Deposits	Value at 31 March 2017
2016-17	£m	£m	£m	£m	£m	£m
Fixed interest securities	112.690	149.535	(107.209)	7.332	0.000	162.348
Equities	371.744	66.470	(37.984)	104.312	0.000	504.542
Index-linked securities	36.851	11.802	(20.676)	55.429	0.000	83.406
Pooled investment vehicles	1,218.882	26.305	(9.785)	155.421	0.000	1,390.823
Derivatives	0.496	1.298	(1.891)	0.199	(0.003)	0.099
	<b>1,740.663</b>	<b>255.410</b>	<b>(177.545)</b>	<b>322.693</b>	<b>(0.003)</b>	<b>2,141.218</b>
Cash deposits	110.721	1.027	(1.014)	(0.199)	4.541	115.076
Other investment balances	2.427	0.000	0.000	0.389	0.000	2.816
<b>Total Investment Assets</b>	<b>1,853.811</b>	<b>256.437</b>	<b>(178.559)</b>	<b>322.883</b>	<b>4.538</b>	<b>2,259.110</b>

	Value at 1 April 2015	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Movement in Cash Deposits	Value at 31 March 2016
2015-16	£m	£m	£m	£m	£m	£m
Fixed interest securities	114.781	47.081	(31.036)	(18.136)	0.000	112.690
Equities	543.358	215.937	(161.130)	(226.421)	0.000	371.744
Index-linked securities	38.062	0.000	(1.385)	0.174	0.000	36.851
Pooled investment vehicles	1,061.752	29.966	(7.261)	134.425	0.000	1,218.882
Derivatives	0.873	0.892	(1.322)	0.056	(0.003)	0.496
	<b>1,758.826</b>	<b>293.876</b>	<b>(202.134)</b>	<b>(109.902)</b>	<b>(0.003)</b>	<b>1,740.663</b>
Cash deposits	68.299	2.579	(5.572)	(0.056)	45.471	110.721
Other investment balances	2.710	1.117	(0.803)	(0.597)	0.000	2.427
<b>Total Investment Assets</b>	<b>1,829.835</b>	<b>297.572</b>	<b>(208.509)</b>	<b>(110.555)</b>	<b>45.468</b>	<b>1,853.811</b>



## 11b Analysis of Investments

2015-16		2016-17
£m		£m
	<b>Fixed Interest Securities</b>	
	<b>United Kingdom</b>	
32.832	Public sector	86.198
43.180	Other	42.653
	<b>Overseas</b>	
13.209	Public sector	8.359
23.469	Other	25.138
<b>112.690</b>		<b>162.348</b>
	<b>Equities</b>	
	<b>United Kingdom</b>	
12.740	Quoted	9.981
	<b>Overseas</b>	
359.004	Quoted	494.561
<b>371.744</b>		<b>504.542</b>
	<b>Index Linked Securities</b>	
	<b>United Kingdom</b>	
32.182	Public Sector	83.406
	<b>Overseas</b>	
4.669	Public Sector	0.000
<b>36.851</b>		<b>83.406</b>
	<b>Pooled Investment Vehicles</b>	
	<b>United Kingdom</b>	
184.612	Unit Trusts - Property	191.725
319.337	Unit Trusts - Other Quoted	283.131
323.521	Other Managed Funds - Other	439.890
351.291	Managed Insurance Funds	428.569
	<b>Overseas</b>	
40.121	Other Managed Funds - Property	47.507
<b>1,218.882</b>		<b>1,390.822</b>
	<b>Cash Deposits</b>	
126.919	United Kingdom	119.411
(15.702)	Overseas	(4.236)
<b>111.217</b>		<b>115.175</b>
	<b>Other Investments</b>	
2.427	Overseas	2.817
<b>2.427</b>		<b>2.817</b>
<b>1,853.811</b>	<b>Total</b>	<b>2,259.110</b>

## 11c Investments Analysed by Fund Manager

The Managers of the fund are Western Asset Management, Blackrock Investment Management (UK) Limited, (formerly Barclays Global Investors) (all appointed 2003), CBRE Global Investors (formerly ING Real Estate) (appointed 2004), Baillie Gifford (Long Term Global Equities), Lazard Asset Management and Henderson Global Investors (all appointed 2007), Partners Group, Baillie Gifford (Diversified Growth Fund) (all appointed 2011) and State Street Global Advisors (appointed 2013).

Market Value 31 March 2016			Market Value 31 March 2017	
£m	%		£m	%
438.000	23.62	Baillie Gifford	553.000	24.48
145.000	7.82	Henderson Global Investors	165.000	7.30
150.000	8.09	Western Asset Management	166.000	7.35
351.000	18.93	Blackrock Investment Management (UK) Ltd	429.000	18.99
122.000	6.58	Lazard Asset Management	157.000	6.95
324.000	17.48	State Street Global Advisors	440.000	19.48
40.000	2.16	Partners Group	46.000	2.04
206.000	11.11	CBRE Global Investors	212.000	9.38
1.000	0.05	Standard Life Sterling Liquidity Fund	1.000	0.04
77.000	4.15	Northern Trust Money Market Fund	90.000	3.98
<b>1,854.000</b>	<b>100.000</b>		<b>2,259.000</b>	<b>100.000</b>

The following investments represent more than 5% of the net assets of the scheme.

Market Value 31 March 2016			Market Value 31 March 2017	
£m	%		£m	%
351.300	18.95	Aquila Life UK Equity Index Fund, managed by Blackrock Investment Management (UK) Ltd	428.600	18.97
174.900	9.43	Baillie Gifford Diversified Growth Fund, managed by Baillie Gifford	193.900	8.58
323.500	17.45	MPF Fundamental Index Global Equity Fund, managed by State Street Global Advisors	423.900	18.76

## 12 Analysis of Derivatives

### Objectives and policies for holding derivatives

A derivative is a financial instrument that derives its value from another, underlying financial instrument or asset, which could be an equity, bond, an index, another derivative or a real asset.

Fund managers may use derivatives to gain exposure to an asset more efficiently than holding the underlying asset. They are used to manage risk; either to assume risk, to hedge risk or to reduce risk. The use of derivatives is managed in line with the investment management agreements in place between the fund and the various investment managers.

Western Asset Management used futures as part of their fixed interest trading strategy to lower costs and improve efficiency, particularly during periods of higher uncertainty, such as around elections and referenda.

Details of Derivative Contracts held at 31 March are summarised below:

<b>2016-17</b>	<b>Expires within</b>	<b>Economic Exposure</b>	<b>Assets</b>	<b>Liabilities</b>
			<b>£m</b>	<b>£m</b>
<b>Fixed Income Futures</b>				
UK fixed interest	one year	(5.231)	0.000	(0.077)
Overseas fixed interest	one year	2.656	0.011	0.000
		<b>(2.575)</b>	<b>0.011</b>	<b>(0.077)</b>

<b>2015-16</b>	<b>Expires within</b>	<b>Economic Exposure</b>	<b>Assets</b>	<b>Liabilities</b>
			<b>£m</b>	<b>£m</b>
<b>Fixed Income Futures</b>				
UK fixed interest	one year	6.182	0.000	(0.001)
Overseas fixed interest	one year	2.938	0.006	0.000
		<b>9.120</b>	<b>0.006</b>	<b>(0.001)</b>

The economic exposure represents the notional value of bonds purchased under the futures contract on an absolute basis, and is therefore subject to market movements

### 13 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 valuation provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments-overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments - hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuation could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts
Freehold and leasehold properties	Level 3	Valued at fair-value at the year-end using the investment method of valuation	Existing lease terms and rentals; Independent market research; nature of tenancies; covenant strength for existing tenants; assumed vacancy levels; estimated rental growth; discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

## 13 Fair Value - Basis of Valuation ( continued )

### Sensitivity of assets valued at level 3

The fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of the investments held at 31 March 2017

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on Increase	Value on Decrease
	£m	£m	£m	£m
Pooled investments-hedge funds	0.000	0.000	0.000	0.000
Freehold and leasehold property	14.200	125.592	143.426	107.758
Unquoted overseas equity	0.000	0.000	0.000	0.000
Private equity	20.400	44.754	53.884	35.625
	<b>34.600</b>	<b>170.346</b>	<b>197.310</b>	<b>143.383</b>

### 13a Fair Value Hierarchy

The valuation of investment assets and liabilities has been classified into three levels, according to the quality and reliability of information used to determine fair values.

#### Level 1

Investment 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, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

#### Level 2

Investment 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 and where these techniques use inputs that are based significantly on observable market data.

#### Level 3

Investment assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include unquoted investments, investments in property funds and inflation index linked notes, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Fife Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which Follow the valuation principles of IFRS and US GAAP. Valuation dates of these investments may not have taken place at the Council's balance sheet date, however, widely recognised valuation methods are used to establish the 31 March valuations as appropriate.

### 13a Fair Value Hierarchy ( continued )

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable. There were no transfers between level 3 and level 1 in the year.

Values at 31 March 2017	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Investment assets at fair value	1,505.372	583.391	170.347	2,259.110
	<b>1,505.372</b>	<b>583.391</b>	<b>170.347</b>	<b>2,259.110</b>

Values at 31 March 2016	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Investment assets at fair value	1,172.785	519.188	161.838	1,853.811
	<b>1,172.785</b>	<b>519.188</b>	<b>161.838</b>	<b>1,853.811</b>

### 13b Reconciliation of Fair Value Measurements within Level 3

	Market value 1 April 2016	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market value 31 March 2017
	£m	£m	£m	£m	£m	£m	£m	£m
Corporate Bond - overseas (a)	0.753	0.000	(0.753)	0.000	0.000	0.000	0.000	0.000
Government Bonds-index linked-overseas	1.422	0.000	0.000	0.000	1.422	0.000	0.239	0.000
Private equity	37.328	0.000	0.000	3.768	0.000	3.658	0.000	44.754
Property	122.335	0.000	0.000	12.349	0.000	(9.092)	0.000	125.592
	<b>161.838</b>	<b>0.000</b>	<b>(0.753)</b>	<b>16.117</b>	<b>1.422</b>	<b>(5.434)</b>	<b>0.239</b>	<b>171.345</b>

(a) transferred from level 3 to level 2 due to an improvement in observable market data

(b) unrealised and realised gains and losses are recognised in the 'Profit and Loss on disposal of investments and changes in the market value of investments ' line of the Fund Account.

## 14 Classification of Financial Instruments

31 March 2016				31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£m	£m	£m		£m	£m	£m
			<b>Financial assets</b>			
112.690			Fixed Interest Securities	162.348		
371.744			Equities	504.542		
36.851			Index Linked Securities	83.406		
1,218.882			Pooled Investment Vehicles	1,390.822		
	112.578		Cash Deposits		116.681	
	2.427		Other Investments		2.817	
	3.891		Debtors		8.195	
<b>1,740.167</b>	<b>118.896</b>	<b>0.000</b>		<b>2,141.118</b>	<b>127.693</b>	<b>0.000</b>
			<b>Financial Liabilities</b>			
		(5.434)	Creditors			(6.858)
<b>0.000</b>	<b>0.000</b>	<b>(5.434)</b>		<b>0.000</b>	<b>0.000</b>	<b>(6.858)</b>
<b>1,740.167</b>	<b>118.896</b>	<b>(5.434)</b>	<b>Total</b>	<b>2,141.118</b>	<b>127.693</b>	<b>(6.858)</b>
<b>1,853.629</b>			<b>Grand Total</b>	<b>2,261.953</b>		

## 15 Nature and Extent of Risks Arising from Financial Instruments

The fund holds various classes of assets ranging from cash held in bank accounts, through equities to various less liquid assets like property and infrastructure fund investments. This allows current liabilities i.e. current pension commitments to be paid in full, with ease and certainty.

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. In other words that there will not be sufficient funds realised from any future sale of assets to meet future pension payments. The aim of risk management is therefore to minimise the risk of a fall in the value of the fund and to maximise the opportunity for gains. This is achieved by asset diversification. This note looks at the nature and extent of risks arising from, in particular, investment in financial instruments.

The following are the key risks identified as relating to financial instruments:-

Liquidity risk

Credit risk

Market risk - currency risk, interest rate risk, other price risk

### Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. Officers ensure the fund has adequate cash resources to meet ongoing pensioner payroll costs and investment commitments. A substantial portion of the Fund's investments consist of readily realisable securities in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund are benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements and has immediate access to its cash holdings.

All financial Liabilities are due within one year.

## 15 Nature and Extent of Risks Arising from Financial Instruments ( continued )

### 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 value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is provided for in the fund's financial assets and liabilities.

In essence, the fund's entire investment portfolio is exposed to some form of credit risk, but the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through failure to settle a transaction in a timely manner. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Fund invests in the money markets to provide diversification.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectible deposits over the past year.

### Market Risk

Market risk is the risk of loss from fluctuations in 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 is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The diversification of the portfolio is reflected in the fund's investment strategy; the current strategy, as agreed by the Superannuation Fund and Pensions sub-committee, is detailed in the Statement of Investment Principles at Appendix B of this Report.

The subdivisions of market risk can be measured and the following tables provide an estimate of the potential volatility the fund is exposed to through the three components of market risk i.e. currency, interest rate and other.

### 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 denominated in any currency other than £UK. The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

Currency risk is monitored for the fund by its investment managers.

Following analysis of historical data, in consultation with the fund's investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

A 10% fluctuation in currency is considered reasonable, based on the fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling thirty six month period. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The tables below summarise the fund's currency exposure as at 31 March 2017 and 31 March 2016 and the impact of a 10% increase/decrease in the value of the pound on the fund's asset classes.



## 15 Nature and Extent of Risks Arising from Financial Instruments ( continued )

Market Risk - currency risk 31 March 2017	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
<b>Currency Exposure-asset type</b>			
Fixed Interest Securities	33,497.000	36,847.000	30,147.000
Overseas Equities	494,561.000	544,017.000	445,105.000
Index Linked Securities	0.000	0.000	0.000
Property	47,507.000	52,258.000	42,756.000
Cash	(4,236.000)	(4,660.000)	(3,812.000)
Other	2,817.000	3,099.000	2,535.000
	<b>574,146.000</b>	<b>631,561.000</b>	<b>516,731.000</b>

Market Risk - currency risk 31 March 2016	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
<b>Currency Exposure-asset type</b>			
Fixed Interest Securities	36,678.000	40,346.000	33,010.000
Overseas Equities	359,004.000	394,904.000	323,104.000
Index Linked Securities	4,668.000	5,135.000	4,201.000
Property	40,120.000	44,132.000	36,108.000
Cash	(15,702.000)	(17,272.000)	(14,132.000)
Other	2,427.000	2,670.000	2,184.000
	<b>427,195.000</b>	<b>469,915.000</b>	<b>384,475.000</b>

### Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Investments are subject to interest rate risks, which represent the risk that the 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 monitored for the fund by its investment managers. The Council recognises that interest rates vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 1.0% movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 1.0% from one year to the next.

The fund's exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out in the tables below. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

## 15 Nature and Extent of Risks Arising from Financial Instruments ( continued )

Market Risk - interest rate risk 31 March 2017	Duration (years)	Asset Values assumed £m	Asset Value on increase of 1% £m	Asset Value on decrease of 1% £m
<b>Asset Class</b>				
Corporate Bonds (short term)	2.90	14.100	13.690	14.510
Corporate Bonds (medium term) *	6.80	73.500	68.500	78.500
Corporate Bonds (long term) **	12.00	51.200	45.060	57.340
UK fixed gilts (short term)	3.00	19.400	18.820	19.980
UK fixed gilts (medium term)	8.10	24.800	22.790	26.810
UK fixed gilts (long term)	19.00	55.400	44.870	65.930
UK index linked gilts (short term)	1.90	3.100	3.040	3.160
UK index linked gilts (medium term)	8.80	19.300	17.600	21.000
UK index linked gilts (long term)	30.10	60.200	42.080	78.320
<b>Total</b>		<b>321.000</b>	<b>276.450</b>	<b>365.550</b>

\* includes exposure to Overseas Bonds (£10.8m).

\*\* includes exposure to Overseas Bonds (£1.8m).

Market Risk - interest rate risk 31 March 2016	Duration (years)	Asset Values assumed £m	Asset Value on increase of 1% £m	Asset Value on decrease of 1% £m
<b>Asset Class</b>				
Corporate Bonds (short term)	2.40	21.800	21.280	22.320
Corporate Bonds (medium term) *	7.20	63.300	58.740	67.860
Corporate Bonds (long term) **	12.80	51.000	44.470	57.530
UK fixed gilts (short term)	2.10	16.400	16.060	16.740
UK fixed gilts (medium term)	6.00	23.200	21.810	24.590
UK fixed gilts (long term)	18.20	27.600	22.580	32.620
UK index linked gilts (short term)	2.00	7.100	6.960	7.240
UK index linked gilts (medium term)	9.60	20.800	18.800	22.800
UK index linked gilts (long term)	28.10	49.500	35.590	63.410
<b>Total</b>		<b>280.700</b>	<b>246.290</b>	<b>315.110</b>

### Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The fund's investment managers mitigate other price risk through diversification. The selection of investments is monitored by the Council to ensure it is within limits specified in the fund's investment strategy.

Hymans Robertson, investment consultants, provided an assessment of risks relating to currency, interest rate and other price risks. Their assessment has been applied to the appropriate assets of the fund and the potential volatility in asset values calculated.

## 15 Nature and Extent of Risks Arising from Financial Instruments ( continued )

Market Risk - interest rate risk 31 March 2017	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
<b>Asset Class</b>					
UK Equities	15.80	19.80	448.300	519.130	377.470
Global Equities	18.40	41.40	934.400	1,106.330	762.470
Infrastructure	20.40	2.00	44.800	53.940	35.660
Property	14.20	8.50	191.600	218.810	164.390
Corporate Bonds (short term)	4.30	0.60	14.100	14.710	13.490
Corporate Bonds (medium term)	10.10	3.30	73.500	80.920	66.080
Corporate Bonds (long term)	12.30	2.20	51.200	57.500	44.900
UK fixed gilts (short term)	3.20	0.90	19.400	20.020	18.780
UK fixed gilts (medium term)	9.50	1.10	24.800	27.160	22.440
UK fixed gilts (long term)	12.50	2.40	55.400	62.330	48.480
UK index linked gilts (short term)	4.00	0.10	3.100	3.220	2.980
UK index linked gilts (medium term)	7.10	0.90	19.300	20.670	17.930
UK index linked gilts (long term)	9.00	2.70	60.200	65.620	54.780
Cash	0.00	5.40	122.200	122.200	122.200
Absolute Return/Diversified Growth	12.50	8.700	196.700	221.290	172.110
		<b>100.00</b>	<b>2,259.000</b>	<b>2,593.850</b>	<b>1,924.160</b>

Market Risk - interest rate risk 31 March 2016	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
<b>Asset Class</b>					
UK Equities	17.10	20.10	373.700	437.600	309.800
Global Equities	19.60	36.90	682.900	816.750	549.050
Infrastructure	10.70	2.00	37.400	41.400	33.400
Property	14.70	10.00	184.700	211.850	157.550
Corporate Bonds (short term)	7.10	1.20	21.800	23.350	20.250
Corporate Bonds (medium term)	9.50	3.40	63.300	69.310	57.290
Corporate Bonds (long term)	18.10	2.70	51.000	60.230	41.770
UK fixed gilts (short term)	3.00	0.90	16.400	16.890	15.910
UK fixed gilts (medium term)	6.70	1.20	23.200	24.750	21.650
UK fixed gilts (long term)	12.30	1.50	27.600	30.990	24.210
UK index linked gilts (short term)	2.30	0.40	7.100	7.260	6.940
UK index linked gilts (medium term)	5.10	1.10	20.800	21.860	19.740
UK index linked gilts (long term)	9.60	2.70	49.500	54.250	44.750
Cash	0.60	6.30	117.000	117.700	116.300
Absolute Return/Diversified Growth	12.70	9.600	177.400	199.930	154.870
		<b>100.00</b>	<b>1,853.800</b>	<b>2,134.120</b>	<b>1,573.480</b>

The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The Fund Asset Value at 31 March 2017 was £2.259bn. The 1 year weighted average volatility was 10.8% at 31 March 2017, meaning the 'value on increase' would be £2.502bn and the 'value on decrease' would be £2.016bn.

## 16 Actuarial Valuation

Employee contributions are fixed by statute and employers' basic contributions are assessed every three years by actuary. The last valuation of the fund was carried out as at 31 March 2014 by Hymans Robertson and the actuarial statement, including assumptions made in the calculations is contained in this Annual Report

Adjustments have been made to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers and the minimum level of contributions for each employer is detailed in the report. For Fife Council it was recommended that the employers' contribution rate is as follows:

Financial Year	Employers' Contribution rate
2016-17	23.60%
2017-18	24.50%
2018-19	25.50%

The actuary also undertakes a valuation to present value of promised retirement benefits, an equivalent calculation which shows employers' future liability to pay pensions earned at the balance sheet date, in accordance with IAS19. It is essentially a snapshot which captures the liability at a specific point in time only and should not be used for comparing against liability measures on a funding basis. The liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2014, with no allowance for future unfunded benefits.

	30 March 2016	31 March 2017
	£m	£m
Present Value of Promised Retirement Benefits	2,476.000	3,194.000

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

### IAS 19 Assumptions used

	30 March 2016	31 March 2017
	%	%
Inflation / pension increase rate	2.20	2.40
Salary Increase rate	3.40	3.60
Discount rate	3.50	2.60

### Demographic assumptions

	Males	Females
<b>Future life expectancies assumed in the calculation</b>		
Current Pensioners	22.0 years	23.7 years
Future Pensioners	24.1 years	26.4 years

### Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are:

Change in assumptions at 31 March 2017	Approximate % increase to Defined Benefit	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	11%	0.331
0.5% increase in the Salary Increase Rate	4%	0.113
0.5% increase in the Pension Increase Rate	7%	0.209

## 17 Analysis of Debtors

2015-16		2016-17
£m		£m
0.825	Central Government	0.509
2.055	Other Debtors	3.012
<b>2.880</b>		<b>3.521</b>

During 2016-17, the East of Scotland European Partnership (ESEP) ceased to have active members. Other Debtors includes the amount expected to be received in relation to this cessation.

## 18 Additional Voluntary Contributions (AVC)

2015-16 Contributions	Fund Value 31 March 2016		2016-17 Contributions	Fund Value 31 March 2017
£m	£m		£m	£m
0.114	1.168	Standard Life	0.088	1.165
0.687	1.970	Prudential	0.895	2.534
0.000	0.129	Clerical Medical	0.000	0.135
0.000	0.160	Equitable Life	0.000	0.160
<b>0.801</b>	<b>3.427</b>		<b>0.983</b>	<b>3.994</b>

## 19 Related Party Transactions

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2016-17 charged £1.094m (2015-16 £1.344m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £62.183m (2015-16 £58.605m) and collected and paid over employees's contributions of £15.008m (2015-16 £14.793m)

### Governance

All members of both the Superannuation Fund and Pensions Sub-Committee and the Pensions Board are in receipt of pension benefits from the Fife Pension Fund.

Each member is required to declare their interests at each meeting.

## 19a Key Management Personnel

The key management personnel of the fund are the Chief Executive and the Executive Director Finance and Corporate Services. Total remuneration payable to key management personnel is set out below:

2015-16		2016-17
£m		£m
0.276	Salary, fees & Allowances	0.288
<b>0.276</b>		<b>0.288</b>

The pension entitlements for the key management personnel are set out below together with the contribution made by the council during the year

2015-16		2016-17
£m		£m
0.062	In year employer's pension contributions	0.063
	<b>Accrued Pension Benefits</b>	
0.090	Pension	0.102
0.181	Lump Sum	0.196

**20 Events after the Reporting Date**

There have been no events since 31 March 2017, and up to the date when these accounts were authorised that require any adjustments to these accounts.

**21 Contingent Assets and Liabilities**

At 31 March 2017 there were no contingent assets or liabilities.

**22 Impairment Losses**

No investment assets were subject of impairment during the year

**23 Accounting Standards Issued, not yet Adopted**

The code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued by not yet adopted

Accounting Standards not yet adopted are:-

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

## **MEMBERSHIP OF THE FUND**

Membership of the fund comprises employees, deferred members\* and pensioners of Fife Council and other participating employers. The fund is also open to elected members of the Council.

Participating employers are either scheduled or admitted bodies. Scheduled bodies have a statutory obligation to join the fund. Other employers may join, provided they meet certain conditions. These are known as admitted bodies.

The list of participating employers during 2016-17 is as follows:-

### **Scheduled Bodies**

Fife Council  
Fife College (formerly Adam Smith and Carnegie Colleges)  
Visit Scotland  
Police College  
Scottish Police Authority (for former support staff of Fife Constabulary and new support staff based in the Fife area)  
Scottish Fire & Rescue Service (for former support staff of Fife Fire & Rescue Service and new support staff based in the Fife area)

### **Admitted Bodies**

St Andrews Links Trust  
Fife Alcohol Support Service  
East of Scotland European Partnership  
Fife Housing Association Ltd  
Fife Gingerbread  
Citizens Advice & Rights Fife  
Home-Start Levenmouth  
Business Gateway Fife  
Drug & Alcohol Project  
Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)  
The Clued-Up Project  
Fife Historic Buildings Trust  
Fife Forth Valley Community Justice Authority  
Forth & Oban  
Fife Sport & Leisure Trust  
Fife Coast & Countryside Trust  
Fife Women's Aid  
Fife Golf Trust  
Fife Cultural Trust  
Scotland's Rural College (SRUC)  
Fife Resource Solutions  
Poppyview Family Centre  
St Andrews Botanic Garden  
MITIE

### **Changes in Membership**

ESEP ceased participating in the Fund on 21 December 2016.

## FIFE COUNCIL PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES (November 2016)

#### 1.0 Introduction

- 1.1 This Statement of Investment Principles has been prepared in accordance with and as required by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, as amended.
- 1.2 The Statement is provided to the Fund's investment managers and engagement and voting provider, which are required to follow the principles that it sets out.

#### 2.0 Governance & Effective Decision-Making

- 2.1 Fife Council is the administering authority of the Fife Council Pension Fund. The Council has set up The Superannuation Fund and Pensions Sub-Committee which has representative Councillor Members (voting), as well as member and employer representatives (non-voting). The Terms of Reference of the Sub-Committee are:- "to arrange for the supervision of the management and administration of the investments of the Superannuation Fund, Common Good Fund and all Trust Funds and to make decisions in regard to the appointment of Fund Managers in that regard; and to consider and determine (except insofar as delegated to the Executive Director, Finance and Corporate Services or any other officer) all matters relating to the Council's functions in regard to pensions administered by the Council...."
- 2.2 Staff from Democratic Services record attendance at Sub-Committee meetings, trainings, seminars and conferences.
- 2.3 The Sub-Committee meets, as a minimum, quarterly to consider pension and investment matters. It also sets the Funding Strategy, the investment objectives and policy. The Fund's assets are managed by external fund managers, who have delegated authority to carry out all day to day investment decisions, including acquisition and realisation of investments, within the constraints of any agreed benchmarks.
- 2.4 Regular training is offered to the members of the Sub-Committee, provided by appropriate varied sources. Staff from Democratic Services record attendance.
- 2.5 In addition, tools to support training needs are available to Members and officers as appropriate.

#### 3.0 Clear Objectives and Areas of Risk and Liabilities

- 3.1 The primary aim of the Fund is to ensure that benefits due to members and their dependents are paid when they fall due.
- 3.2 The Sub-Committee approves a Funding Strategy Statement, the main aim of which is to:-
  - (a) ensure the long-term solvency of the Fund
  - (b) secure and maintain sufficient assets to meet liabilities which fall due by the Fund under the Local Government Pension Scheme.



- (c) minimise the risk of assets failing to meet these liabilities.
- (d) maximise investment returns within an acceptable level of risk whilst, at the same time, providing stability in the level of employers' contribution rates.

### 3.3 Risk

It must be recognised that seeking to achieve the Fund's investment objectives carries a certain amount of risk. The risks are monitored on an ongoing basis as follows:

#### (a) Solvency Risk and Mismatching Risk

Addressed through the asset allocation strategies adopted by the Fund Managers along with the ongoing triennial actuarial valuations as required by regulation. The Sub-Committee takes regular advice from the Fund's actuaries with regard to the need to match the Fund's assets to the liabilities.

#### (b) Manager Risk

Addressed through diversification achieved from the appointment of eight fund managers, with a variety of mandates, and the ongoing quarterly monitoring of their performance and strategy.

The Fund's investment strategy has been in place since 1 July 2011. The expected long-term return, based on market conditions as at 30 September 2016, has been estimated by the Fund's investment consultant to be 4.8% p.a. The Committee notes that this estimate will change over time as market conditions evolve, and accordingly will review the Fund's structure and investment strategy on a periodic basis.

- 3.4 The Executive Director, Finance and Corporate Services, and her staff, provide technical support to the Sub-Committee as necessary. In addition, professional advice is considered from both investment consultants and actuaries.
- 3.5 Regular audits, both internal and external, are carried out and results are submitted to the appropriate Committee.
- 3.6 The Fund's appointed managers have full discretion regarding choice of investments, subject to their respective benchmarks and guidelines. However, it is expected that the Fund will have a mix of real and monetary assets. The managers are expected to maintain diversified portfolios, which will contribute to risk management in accordance with the objective set out in para 3.3.
- 3.7 The Fund is managed in accordance with The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, as amended or revised.
- 3.8 The Fund's investment management arrangements are fully reviewed regularly in accordance with practice approved by the Sub-Committee.

The following is the Total Fund strategic benchmark from 3 October 2016:-

Asset Class	Allocation %	Benchmark
UK Equities	20.0	FTSE All Share Index
Global Equities	23.0	MSCI All Countries World ND Index
Global Equities	12.0	FTSE RAFI World 3000 Index
Property	10.0	HSBC/APUT All Pooled Funds Index
Absolute Return	10.0	UK Base Rate
Cash/Infrastructure	5.0	UK Base Rate
Bonds	10.0	iBoxx Sterling Non Gilts Index
Bonds	2.5	FTSE Gilt All Stocks Index
Bonds	2.5	FTSE Actuaries Over 5 Year UK Gilts Index
Bonds	2.5	FTSE Actuaries UK Index-Linked Over 5 Year Index
Bonds	2.5	FTSE Index Linked Gilt All Stocks Index

3.9 The majority of the Fund's investments may be realised quickly if required. However, the Fund's investments in property (which represent approximately 10% of total assets) are less liquid and may take time to realise quickly in certain market conditions. The Fund has also made a strategic allocation (approximately 5% of total assets) to a number of infrastructure funds which have various minimum expected timeframes and these are not expected to be realisable during these periods.

3.10 A global custodian is appointed to ensure safekeeping of the assets.

#### 4.0 Performance Assessment

4.1 An independent performance management company is appointed to provide regular reports for Sub-Committee members. These reports detail the investment performance of the Fund managers. In addition, an annual report is provided to the Sub-Committee, outlining the performance of the Fund against its benchmark and for each individual Fund manager in relation to the Fund managers' set investment objectives and their individual benchmarks.

4.2 Training and Committee attendance of members of the Superannuation and Pensions Fund Sub-Committee is monitored on an annual basis.

#### 5.0 Responsible Ownership

5.1 Whilst the Fund managers have delegated powers for the acquisition and realisation of investments, they are expected, as part of their investment process, to consider all factors, including the environmental, social, governance and ethical policies of companies in which they may invest to the extent that these may materially affect the expected returns and long term prospects of such companies. The Fund managers are also expected to enter into dialogue with companies in which they invest in relation to the pursuance of socially responsible business practices, and report regularly to the Sub-Committee on these activities.

5.2 Corporate Governance is a key responsibility for institutional shareholders and Fife Council believes that having engaged owners who are clear about their expectations will help companies produce sustainable value and that companies' long-term financial returns are connected to their strategic, environmental, social and governance performance. As of 1 May 2013, as administering authority, Fife Council appointed a specialist provider, Hermes Equity Ownership Services, (HEOS), to act as its agent in carrying out voting and to engage in

Environmental, Social and Governance (ESG) issues with investment managers and companies in which the Fund invests and to cast votes on behalf of the Fund. As a matter of principle, the Fund seeks to exercise all of its voting rights in respect of its shareholdings. It is recognised, however, that, in practical terms, this may not always be possible for overseas holdings. It is also recognised that, from time to time, the decision will be taken to abstain from voting due to insufficient information being made available (not the fault of the company concerned) or to support the achievement of an engagement objective with the company. HEOS typically conducts engagement and voting related dialogues with companies in confidence and will not disclose Fife Council Pension Fund's involvement in such engagements, unless specifically agreed in advance.

- 5.3 The cornerstones of the service provided by Hermes are the Hermes Responsible Ownership Principles (available on the Hermes website) and the Financial Reporting Council UK Stewardship Code, (available on the Financial Reporting Council website).
- 5.4 Annual reports are provided to the Sub-Committee on the engagement and voting carried out on its behalf.

## **6.0 Transparency and Reporting**

- 6.1 Minutes of meetings of the Superannuation and Pensions Fund Sub-Committee, policy statements and annual accounts are available on the FifeDirect website.

## **7.0 Compliance**

- 7.1 The Fund is compliant with the statutory restrictions set out in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 and any subsequent amendments.
- 7.2 This Statement of Investment Principles complies with the six Principles set out in the Chartered Institute of Public Finance and Accountancy's publication –Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – A Guide to the Application of the Myners Principles. Details of compliance are shown in Appendix A.

Finance and Corporate Services  
Fife House  
Glenrothes  
November 2016

## THE FIFE COUNCIL PENSION FUND AND THE MYNERS PRINCIPLES

	Principle	Arrangements in Place
1	<p>Effective Decision Making</p> <p>Administering authorities should ensure that:-</p> <p>Decisions are taken by persons or organisations with the skills, knowledge, information and resources necessary to make them effectively and monitor their implementation; and</p> <p>Those persons have sufficient expertise to be able to evaluate the advice they receive, and manage conflict of interest.</p>	<p>Responsibility for the management of the fund is delegated to the Superannuation Fund &amp; Pensions Sub-Committee of the Council.</p> <p>Hymans Robertson is appointed as the Council's actuaries.</p> <p>Hymans Investment Consultants are the investment advisers.</p> <p>Regulation permits the appointment of suitably qualified investment managers to make investment decisions on behalf of the administering authority.</p> <p>The Executive Director Finance and Corporate Services provides the committee with officer support.</p> <p>Training is regularly offered and undertaken from varied and appropriate sources e.g. the Employer Organisation, consultants and fund managers as they arise.</p>
2	<p>Clear Objectives</p> <p>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</p>	<p>A Funding Strategy is approved by the sub-committee and is reviewed regularly.</p> <p>Out performance of customised benchmarks are included within investment manager agreements.</p>
3	<p>Risk and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>A triennial actuarial valuation is carried out by the Fund's actuaries and the results and impact of this are considered when reviewing the investment strategy of the fund.</p>

	Principle	Arrangements in Place
4	<p><b>Performance Assessment</b></p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<p>Independent performance measurement of the fund assets and the fund managers is carried out by Northern Trust.</p> <p>During the term of each sub-committee, a full review of the investment management arrangements is considered and progressed as and if appropriate.</p> <p>Information on attendance at trainings is provided annually to the sub-committee for review.</p>
5	<p><b>Responsible Ownership</b></p> <p>Administering authorities should:- Adopt, or ensure their investment managers adopt or explain their approach to the UK Stewardship Code on the responsibilities of shareholders.</p> <p>Include a statement of their policy on responsible ownership in the statement of investment principles.</p> <p>Report periodically to scheme members on the discharge of such responsibilities.</p>	<p>Hermes Equity Ownership Services (HEOS) has been appointed to assist the Fund in meeting its fiduciary responsibilities in the areas of engagement and voting.</p> <p>All investment managers have confirmed compliance with the Stewardship Code or explained their alternative strategy. HEOS will also engage with the investment managers and companies in which the Fund invests.</p> <p>The Fund's Statement of Investment Principles (SIP), outlines that managers must consider socially responsible investment issues as part of their investment strategy.</p> <p>Regular reports are presented to committee demonstrating appropriate actions taken.</p>
6	<p><b>Transparency and Reporting</b></p> <p>Administering authorities should:- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.</p> <p>Provide regular communication to scheme members in the form they consider most appropriate.</p>	<p>An annual report and statement is provided to all Fund members.</p> <p>An annual meeting is held for employers.</p> <p>The Pension Fund Annual Report is made available on the FifeDirect website.</p>

## **FIFE COUNCIL PENSION FUND COMMUNICATION POLICY**

(June 2015)

### **Introduction**

Fife Council Pension Fund provides pension administration and investment services for Fife Council employees and employees of participating employers within Fife.

The Local Government Pension Scheme (Scotland) Regulations 2014 require each pension fund administering authority to prepare, publish and review its communication policy statement.

A policy statement must set out:

- The provision of information and publicity of the scheme to members, representatives of members and scheme employers.
- The format, frequency and method of distributing information and publicity.
- The promotion of the scheme to prospective members and scheme employers

This statement summarises how the Fund communicates with members, employers and other stakeholders.

### **Communications Objectives**

The key objectives of the Fund's communication policy are

- To improve understanding of the Scheme and the Fund.
- To promote the benefits of scheme membership as an important part of the employment package.
- Keep members, employers and other stakeholders up to date with regulation changes.
- To allow members to make informed decisions.

In order to achieve these objectives, our aim is to ensure communications are

- Factual and presented in plain language.
- Designed to meet the needs of each target audience.
- Use the most efficient and effective means of delivery.

### **Key Audiences**

The Fund has identified the following distinct groups with whom it needs to communicate with

- Scheme members.
- Scheme employers.
- Prospective scheme members and employers.
- Trade Unions.
- Superannuation and Pensions Sub Committee and the Fife Pension Board.

## **Communication Tools and Strategy**

The following section outlines how the Fund communicates with each group.

### **Active Scheme members – currently contributing to the Scheme**

#### **By post**

- Statutory confirmation of membership.
- Annual benefit statement.
- On request, communications can be provided in alternative formats including Braille, translation and audio.
- Correspondence relating to members' benefits.

#### **In person/phone**

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.
- Roadshows, induction/retirement talks – at request of employer.

#### **Email/Website**

- Dedicated email address for queries.
- Email used to receive and send correspondence where appropriate.
- Website [www.fifedirect.org.uk/lgps](http://www.fifedirect.org.uk/lgps) providing an extensive range of scheme literature including scheme guides, leaflets, policies, the valuation report, Pension Fund Annual report and the Funding strategy statement . Literature is updated accordingly.
- Website has links to other useful websites including [www.scotlgps2015.org](http://www.scotlgps2015.org) which provides full details on the new LGPS effective from 1 April 2015.
- Newsletters updating members about scheme changes.
- Global emails promoting the scheme and the in-house AVC schemes and highlighting specific areas e.g. pension taxation changes, Freedom and Choice, and the impact of the introduction of the new state scheme from April 2016.

### **Member Self Service**

Following extensive development and testing, Member Self Service was introduced in 2016. This application allows members to access and edit the information held on their pension records through a secure website.

The site is available either from work or home. It is designed to work on mobile devices, such as phones and tablets, as well as PCs and laptops.

Once registered, a member can

- Edit personal information
- View scheme membership details
- Update security information
- Perform benefit calculations
- Access annual benefit statements
- Access publications such as scheme guides, newsletters and factsheets

## **Pensioner Members – those receiving a pension from the Fund**

### **By post**

- Correspondence relating to members' benefits.
- On request, communications can be provided in alternative formats including Braille, translation and audio.
- Payslip once a year detailing pension increase and lifetime allowance certificate.
- Annual newsletter.

### **In person/phone**

- one-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

### **Email/Website**

- Dedicated email address for queries.
- Email used to receive and send correspondence where appropriate.
- Website providing an extensive range of scheme literature including scheme guides, leaflets and policies. Literature is updated accordingly.

## **Deferred Members – no longer actively contributing to the scheme but have left their benefits in the Fund**

### **By post**

- Annual benefit statement.
- Annual newsletter.
- Correspondence relating to members' benefits.
- On request, communications can be provided in alternative formats including Braille, translation and audio.

### **In person/phone**

- one-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

### **Email/Website**

- Dedicated email address for queries.
- Email used to receive and send correspondence where appropriate.
- Website providing an extensive range of scheme literature including scheme guides, leaflets and policies. Literature is updated accordingly.



## **Scheme Employers**

The Fund communicates with scheme employers in the following ways

- Annual Employers' Forum.
- Employer newsletters giving updates on legislation and policy matters.
- Wording of global emails/intranet messages provided for employers to cascade down to scheme and potential members.
- Pension Administration strategy setting out the roles, responsibilities and service standards for the Fund and employers.
- Statutory Annual report on the Fund.
- Promotion of pension website. Guides/leaflets and forms can be downloaded from the site.
- Presentations/briefings on request.
- Training and support provided by Team members on technical, procedural and policy matters.

## **Prospective Members**

The Pension Team works closely with employers to promote the benefits of the scheme to new employees and to those who have previously opted out.

Upon appointment, prospective scheme members are provided with a link to the pension website where they can access scheme booklets. A new section has been developed outlining the benefits of scheme membership and allowing employees to download easily all the relevant forms and guides to join the LGPS.

If requested by an employer, the Team gives presentations to promote the scheme.

## **Representatives of Members**

We will work with the relevant trade unions to ensure the scheme is understood by all interested parties and to promote the benefits of scheme membership.

The GMB, UCATT, Unison and Unite are represented on the Fife Pension Board.

The Pension Team assists Trade Union representatives with member queries.

## **Superannuation and Pensions Sub Committee and the Fife Pension Board**

The sub-Committee and Board members receive directly all meeting papers. The sub-Committee comprises 9 elected members; in addition there are 2 trade union representatives and 2 employer representatives who are non-voting members. Details of the meetings and minutes are available on the Council's website.

The Fund has on-going training programmes for the Committee and Board members. Training is provided by Council officers and external experts and advisers.

## **Development Priorities**

A key priority is to improve the digital delivery of our communications. The Pension Team continues to work closely with the Council's Communications Officers to enhance the web site.

The project Team is developing Member Self Service for pensioner and deferred members.

Employers will now receive regular technical bulletins.

## Evaluation

Comments on how the Fife Pension Fund communicates with any of our stakeholders are welcome. We are aware that in order for a communications strategy to be fully effective, we need feedback from all our target groups.

If you want to get in touch with us about how we communicate, please contact us using the contact details below.

We are aware that in order for a communications strategy to be fully effective, we need feedback from all our target groups.

### Contact Details

Fiona Clark  
Fife Pension Fund  
Fife Council  
Fife House  
North Street  
GLENROTHES  
Fife KY7 5LT

Opening Times: Monday to Friday 8.30 am to 5.00 pm  
Telephone: 03451 55 55 55 Ext 440896  
Email: [pensions.section@fife.gov.uk](mailto:pensions.section@fife.gov.uk)  
Website: [www.fifedirect.org.uk/lgps](http://www.fifedirect.org.uk/lgps)

## **ADDITIONAL INFORMATION**

Fund Advisors as at 31 March 2017

Actuaries:	Hymans Robertson LLP
Auditors:	Audit Scotland
Bankers:	Royal Bank of Scotland
Investment Consultants:	Hymans Robertson Investment Consultants
Custodians:	The Northern Trust Company
Solicitors:	Fife Council – Legal Services

### **Comments and Suggestions**

Your comments and suggestions on this report would be appreciated, as would any suggestions for items to be included in the future.

Please email your comments to: [Pensions.section@fife.gov.uk](mailto:Pensions.section@fife.gov.uk)

### **Contact Details**

If you would like further information about the Fife Pension Fund, please contact:-

Fife Council, Fife House, North Street, Glenrothes, Fife, KY7 5LT.

For benefit information, address to the Pensions Team, Shared Service Centre, Finance & Corporate Services.

For investment information, address to the Banking and Investments Team.

Email: [Pensions.section@fife.gov.uk](mailto:Pensions.section@fife.gov.uk)

Telephone: 01592 583278

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

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

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

I certify that I have audited the financial statements in the annual accounts of Fife Pension Fund for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the fund during the year ended 31 March 2017 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### **Basis of opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Responsibilities of the Executive Director Finance and Corporate Services for the financial statements**

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

#### **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by

the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the fund and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director Finance and Corporate Services; and the overall presentation of the financial statements.

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

### **Other information in the annual accounts**

The Executive Director Finance and Corporate Services is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report. In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Report on other requirements**

#### **Opinions on other prescribed matters**

I am required by the Accounts Commission to express an opinion on the following matters.

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Pension Fund Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

#### **Matters on which I am required to report by exception**

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.  
I have nothing to report in respect of these matters.

Brian Howarth ACMA CGMA  
Assistant Director  
Audit Scotland  
4th Floor  
8 Nelson Mandela Place  
Glasgow  
G2 1BT  
28 September 2017



