Fife COUNCIL

Fife
Pension Fund

Administered by Fife Council

Fife Pension Fund
Annual Report &
Accounts 2017-18

Fife Pension Fund Annual Report 2017-18

MANAGEMENT COMMENTARY

Introduction

Welcome to the Annual Report and Accounts for the 2017-18 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. The accounts have been prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Strategy and Business Model

As explained in the Funding Strategy Statement, the fund has a long term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. Fund health is monitored every three years by means of review by an independent actuary (see Triennial Review, page 10)

Principal Risks and Uncertainty

There are two main sources of uncertainty that affect whether the fund holds sufficient funds to pay future pensions; the cost of future pensions and the value of investments. The risk of failing to make adequate provision for the future is managed by having an independent actuary value liabilities every three years and set contribution rates (see Actuarial Statement). The risk of losing money on investments is managed by dividing assets between a number of separate investment management firms, chosen to offer diversity and a range of investment styles (see Investment Management Arrangements). The principal risks facing the fund are described in more detail in the Statement of Investment Principles (Appendix A)

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 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 £159.5m was generated on the activities of the fund (compared to £408.3m for the year ended 31 March 2017).

The increase in the value of the fund has been achieved through a surplus of contributions receivable (£100.0m) less benefits payable (£84.2m) and management expenses (£13.2m), investment net income (£24.8m) along with an increase in the market value of investments (£132.4m).

Performance of the fund - the fund has outperformed the 3 year benchmark of 6.67% by 2.19%

Fund membership increased by 2,061 to 36,036

Employers contributed £77.5m to the fund (£73.2m to 31 March 2017)

Employees contributed £18.0m (£17.8m to 31 March 2017)

Pensions and other benefits paid out were £79.1m (£74.2m to 31 March 2017).

Transfer values paid into the fund because staff changed employers was £4.4m (£3.0m to 31 March 2017).

Transfer values paid out of the fund because staff changed employers was £4.8m (£3.2m to 31 March 2017).

The fund has returned 6.39% in the year, outperforming the composite benchmark of 1.98% by 4.41% (net of fees). The fund has also outperformed the 3 year benchmark of 6.67% by 2.19% and the 5 year benchmark of 7.52% by 1.84%, and the benchmark since inception of 8.13% by 0.20% (net of fees).

The benchmark return of 1.98% generally reflects favourable market conditions for investors during the year. The 4.41% return above benchmark is attributed to Long Term Global Growth mandate outperformance of 24.66% and the Infrastructure mandate outperformance of 11.51%, offset by small over and underperformances in other mandates.

The combined asset value of the funds invested at the end of March 2018 increased by £163m to £2.424bn, an increase of 7.2%.

The value of the pension fund has increased by £159.5m in the financial year and totalled £2.421bn at 31 March 2018.

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 £24.8m (2016/17 £22.8m). The fund was further enhanced by a surplus of member contributions receivable over pension payments and management expenses of £2.5m (2016/17 £7.8m) as well as a net capital gain increase of £132.4m (2016/17 £377.8m gain). Irrecoverable withholding tax reduced the value of the fund by £0.261m (2016/17 £0.094m).

The accounts are based on the market value of investments at 31 March 2018. 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 2018 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 £132.4m (2016/17 £377.8m gain) in the year, £87.0m (2016/17 £322.3m) was an unrealised gain and £45.4m (2016/17 £55.5m) realised profit.

Investment Trends and Influences

The fund invests in a diversified portfolio of global assets and is therefore exposed to worldwide economic factors. The following commentary was provided by the Local Authority’s treasury advisers Link Asset Services Ltd:-

“UK Market Commentary

The outcome of the EU referendum in June 2016 resulted in a gloomy outlook with economic forecasts from the Bank of England expecting a major slowdown in UK GDP growth. The Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016 (joint equal with Germany), and 1.8% in 2017.

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start rising. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year due to the sharp increase in inflation caused by the devaluation of sterling after the EU referendum. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

Consequently, market expectations during the autumn rose significantly that the Monetary Policy Committee (MPC) would be heading in the direction of imminently raising Bank Rate, with the November MPC meeting withdrawing the 0.25% emergency rate cut. Weak GDP growth forecasts, little evidence of building pressure on wage increases and inflation forecast showing that the MPC expected inflation to come down to near the 2% target over added to a cooling of expectations of much further action to raise Bank Rate over the next two years.

However, GDP growth in the second half of 2017 came in stronger than expected, with evidence that wage increases had started to rise. The 8 February MPC meeting minutes revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate.

It is the policy of the fund to manage the above risks by allocating assets across different asset classes as shown in the next section and to give fund managers the discretion to respond to market events within their individual mandates.

Equity markets
The FTSE 100 hit a new peak near 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.

The major UK event of the year was the inconclusive result of the general election on 8 June, although this had relatively little impact on financial markets. Brexit negotiations have been a focus of much attention and concern during the year so far.

Eurozone
Economic growth in the EZ, (the UK's biggest trading partner), was lack lustre for several years after the financial crisis, despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

USA
Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 at 3.1%, quarter 3 at 3.2% and quarter 4 at 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the US also fell to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has been the first major western central bank to start on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75% in March 2018. There could be a further two or three increases in 2018 as the Fed faces a challenging situation with GDP growth trending upwards at a time when the recent Trump fiscal stimulus is likely to increase growth further, consequently increasing inflationary pressures in an economy which is already operating at near full capacity. In October 2017, the Fed also became the first major western central bank to start unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.

China
Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan
GDP growth has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy."

It is the policy of the fund to manage the above risks by allocating assets across different asset classes as shown in the next section and to give fund managers the discretion to respond to market events within their individual mandates.

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 A) and the Fund's Funding Strategy Statement (Appendix D) give more information on the fund's investment framework at the start of the year.

The Superannuation Fund & Pensions Sub-Committee (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.

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
Total	**100**	

At 31 March 2018, 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 2018 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 Global Investors	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 1 year benchmark return mandated (+1.34% compared to the benchmark of +1.25%);
- Baillie Gifford's Long Term Global Growth mandate, with its unconstrained global equity mandate, returned in excess of the benchmark in 1 year (+25.91% compared to the benchmark of +1.25%), 3 years (+21.62% compared to the benchmark of +10.03%), 5 years (+22.13% compared to the benchmark of +11.46%) and since appointed (+13.55% compared to the benchmark of +8.31%);
- Lazard Asset Management, the second unconstrained manager, has produced portfolio returns of +8.23% since appointment in 2006 (against a benchmark of +8.31%) and a return of +4.14% against a benchmark of +1.25% in the one year, underperformed against benchmark across 3 years, 5 years and since appointment
- State Street Global Investors was funded in November 2013 in its RAFI Fundamental Indexation Fund. It returned +1.05% against its 1 year benchmark of +1.08% and +9.92% against its 3 year benchmark of +9.9%.

The bond managers hold 14% 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 (1.13% against a benchmark of 0.91%), underperformed in the 3 year period (3.96% against a benchmark of 4.21%), underperformed in the 5 year period (+4.95% against the benchmark of 5.07% and has underperformed the benchmark of 5.85% by 0.51% since appointed; and
- At the end of September 2016, the portfolio managed by Janus Henderson Investors (JHI) 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, JHI returned +1.32% against a benchmark of +1.24%. JHI underperformed its benchmark of +6.46% by -0.46% in the 3 years and its benchmark of 6.19% by -0.44% in the 5 years.

Of the remaining mandates:-

- CBRE's property portfolio underperformed its 1 year benchmark of +10.05% by 2.66%. It underperformed its 3 year benchmark of +8.07 by 1.37% and its 5 year benchmark of +10.50% by 1.98%. Since appointed, CBRE is ahead of its benchmark: +5.53% versus a benchmark of +4.97%;
- the Baillie Gifford Diversified Growth mandate (the absolute returns type fund), returned +4.91% against its benchmark of +0.35% in the year, +4.46% against the benchmark of +0.40% in the 3 years, and +4.49% against the benchmark of +0.44% 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% (£56m) of the fund value is invested in infrastructure. At 31 March 2018, £1.3m is held in the Standard Life Investments Liquidity Fund, for future investment in infrastructure; and
- additional, uncommitted cash (£102m) is held in the Northern Trust Sterling Liquidity Fund, part of which will be used to fund future investment in infrastructure. The strategy for the remainder of the cash is currently under consideration and should be complete by 31 December 2018.

(All performance reported above is Net of Fees)

Structure of Administration

Administration Arrangements

The Pensions Team

The team is accountable to the 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
- maintenance and updating of Member Self Service facility

As the team continue to evolve its practices and development of systems, there is a need to review and develop team members. Development and training needs are identified to ensure that the relevant pension and systems knowledge is acquired, maintained and developed. Team members are encouraged to obtain a recognised professional qualification through the Chartered Institute of Payroll Professionals.

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

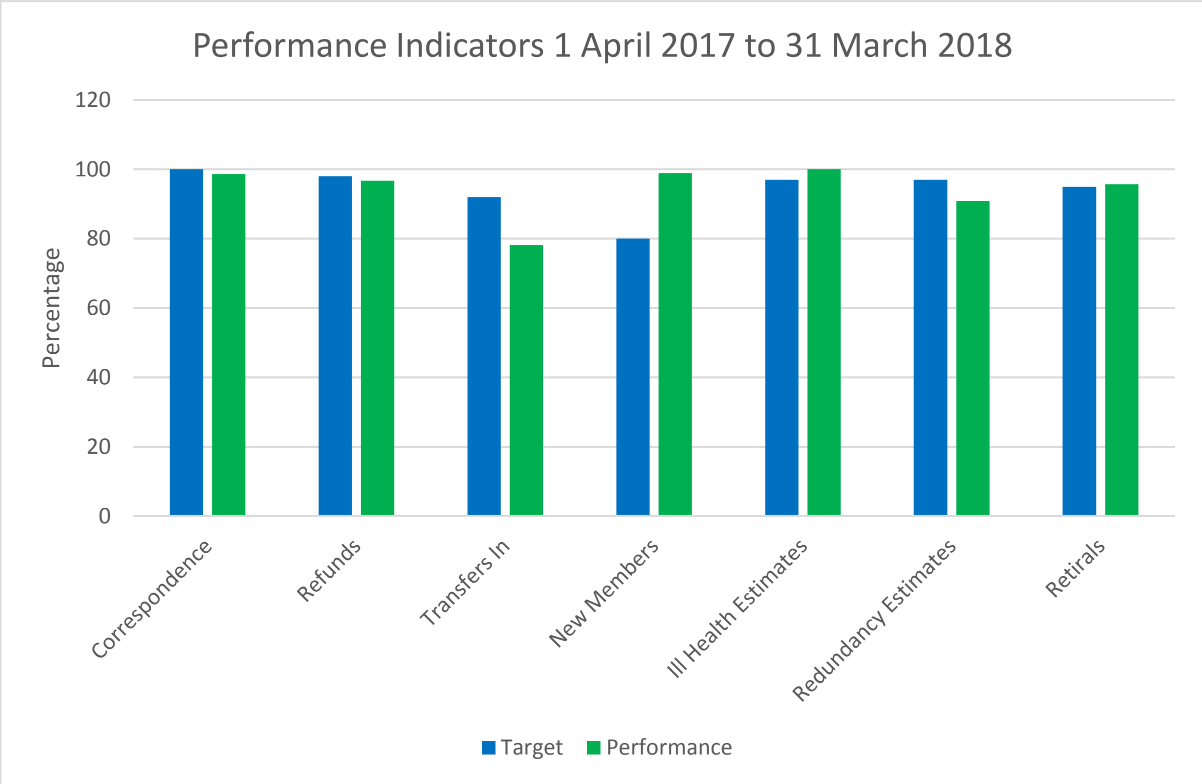
Administration Performance

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.

It has been another busy year for the team but we are pleased to report that performance was strong and targets were exceeded in most key performance indicators. The trend of employer workforce change exercises continued in the year which impacted on workloads, however, targets of issuing payments to retired employees within 5 working days of receiving all the required retirement paper work, were achieved.

Performance Standards



Use of Information Technology

The successful implementation of i-Connect, which electronically integrates the Council's payroll system with the pension administration software, resulted in increased efficiencies in the creation and updating of member pension records and improved data quality. Member records were updated after each payroll run meaning that the year end process was much less onerous than in previous years.

The team is encouraging other employers to use the i-Connect service. A presentation on the benefits of i-Connect was given at the Employers' Forum which generated a lot of interest from employers. The team has since liaised with some of the larger employers providing technical support as they implement i-Connect.

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 C and also at www.fifedirect.org.uk/lgps.

The principal communication to active and deferred members is the annual benefit statement. .

An extensive communication exercise was carried out throughout the year to promote Member Self Service highlighting annual benefits statements could be viewed on-line.

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

The Pension Fund section of the Fife Council website 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.

Working with Scheme Employers

The team liaised closely throughout the year with employers on technical, procedural and policy matters. This ranged from helping with individual member cases to providing technical guidance on the impact of salary sacrifice schemes on LGPS pensions.

The Annual Employers' Forum was held on 7 February 2018. The event was very well attended and featured presentations from the Fund's actuary, the Convenor of the Superannuation Fund and Pensions Sub-Committee and officers from the Fund. The focus of the Forum was the 2017 triennial valuation (see page 10). The actuary explained the approach to, and results of the valuation and also held meetings with individual employers after the Forum.

The valuation process was complex but the team ensured that employers were fully engaged throughout, helping to build relationships between the team and employers.

Due to the timeliness and quality of information received from employers the Fund was able to meet the statutory timescale for issuing annual benefit statements.

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 a Panel comprising:

- Head of Legal Services (Chair)
- Head of Human Resources
- Head of Revenue & Commercial Services
- Executive Director, Finance & Corporate Services – for cases where a panel member had an earlier direct involvement in the dispute.

All cases are processed through the Head of Legal Services who determines the most appropriate person from the panel to deal with the case, having regard to the issues.

During the year to 31 March 2018, the Head of Legal Services dealt with 13 cases:

Reason for Dispute	Number	Decision
Appealing to have deferred benefits paid early due to ill health	2	1 appeal unsuccessful 1 appeal pending
Appealing employer's refusal to grant ill health retirement	4	3 appeals successful 1 pending
Appealing against level of ill health award	5	4 appeals successful 1 pending
Appealing against decision not to pay a cash equivalent transfer	1	Appeal unsuccessful. Member then appealed to Scottish Ministers - decision pending
Appealing against payment of death grant	1	Appeal unsuccessful

Fund Update

Membership details are shown below:-

Member status	**2017-18**	**2016-17**
Active roles	16,620	16,318
Pensioners	12,522	11,994
Deferred roles	6,894	5,663
Total	**36,036**	**33,975**

Employer Bodies

The fund invested and administered pensions on behalf of 28 current and former employers during 2017-18. 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 47 of the Annual Report and Accounts for the Fund.

Pension Increases

The UK Government approved the rate of increase for all public sector pension schemes and state scheme benefits at 1% effective from 10 April 2017. The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2016.

The introduction of the new State Pension from April 2016 impacts on members with a Guaranteed Minimum Pension (GMP). 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 GMP for members who reach State Pension age between 6 April 2016 and 5 December 2018 inclusive. The team ensured that the pension payroll correctly increased pensions for members in this category.

In January 2018, the UK Government's published its response to consultation on GMP indexation and equalisation for those members reaching State Pension Age after 5 December 2018. The UK Government concluded that the interim arrangement detailed above will be extended to cover members reaching their State Pension Age between 6 December 2018 and 5 April 2021 inclusive. During this period, the Government will investigate the possibility of an alternative method whereby the GMP is converted into a scheme benefit.

The Pensions Regulator

The Pensions Regulator (TPR) published its Code of Practice No: 14 Governance and Administration. 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 Sub-Committee meeting in August 2016.

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

The 2017 triennial valuation was a key administrative focus for the team during 2017/18. The team worked hard to submit accurate membership information to the actuary by the prescribed deadline. Throughout the valuation process, the team consulted fully with scheme employers. Following discussions and negotiations with employers, employer contribution rates effective from 1 April 2018 were agreed. The team would like to thank employers for their engagement throughout the valuation process.

An actuarial valuation was undertaken as at 31 March 2017 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 £2.259bn and the fund's liabilities were valued at £2.431bn, resulting in a funding level of 92.9%. This meant there was a shortfall of assets to the assessed cost of members' benefits of £0.172bn. However, the funding level was higher than the 87.8% funding level as at 31 March 2014. Overall, the deficit reduced by £0.049bn since 2014, with strong investment returns and positive member experience out-weighing the effect of unfavourable financial assumptions.

The 2017 valuation results can be viewed at www.fifedirect.org.uk/lgps. The impact of the valuation was that the majority of employers including Fife Council will see contributions held at their current level for the next three years.

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.

In accordance with The Public Service Pensions Revaluation (Prices) Order 2017 the in-service revaluation in respect of the scheme year 2016-17 was 1% applied at one second after midnight on 31 March 2017.

Acknowledgements

We would like to thank elected members and officers of the Council for all of their work during 2017-18. The production of the accounts is very much a team effort and again the unaudited accounts were completed by the 30 June deadline.

Steven Grimmond	Eileen Rowand MBA CPFA
Chief Executive	Executive Director Finance and Corporate Services
27 September 2018	27 September 2018

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Sub-Committee
27 September 2018

PENSION FUND ANNUAL GOVERNANCE STATEMENT

Introduction

Fife Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded scheme under the terms of the Public Services Pensions Act 2013. Fife Council is the body appointed to act as the Administrating 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 Council's 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 Fund & Pensions Sub-Committee has implemented 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 Pension Fund is governed by this Code and by regulations specific to administration of pension funds.

In 2017-18, the Fund has continued to adopt 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 Pensions 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 and how well this has been embedded across the organisation. 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 Pension 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 Fund's 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 Pension Fund has appropriately qualified professional advisers to minimise its exposure.

The Fund's 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 pension scheme matters to the Superannuation Fund and Pensions Sub-Committee. The Sub-Committee comprises of nine elected members of Fife Council. The Corporate Code of Governance clearly defines the roles and responsibilities for the Sub–Committee.

Following the Scottish local elections on 4 May 2017, a Superannuation Fund & Pensions Sub-Committee was re-established. Training covering investments, governance and an introduction to the LGPS was provided to new and existing members.

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 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. All members' training activity undertaken is recorded in training registers; individual training plans continue to be developed.

Work is ongoing to ensure that roles and responsibilities are allocated and documented in line with the Fund's governance Code of Practice No.14 checklist.

The Sub-Committee's Terms of Reference are detailed in Fife Council's List of Committee Powers which can be viewed at:
https://www.fifedirect.org.uk/publications/index.cfm?fuseaction=publication.pop&pubid=AA4197DA-B6B0-9FC5-3DC20FCC89CE1782

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. 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.

The Fife Pension Board

The 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 Board comprises 4 employee representatives appointed by Trade Unions and 4 employer representatives. It meets concurrently with the Pension Sub-Committee and considers the same agenda. In addition, the 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

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 for the Council's roles as employer and administrating 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. These functions are carried out by different divisions of Hymans Robertson and we are satisfied that there is clear separation of duty.

The Fund has appointed investment managers who are delegated the responsibility of investing the assets of the Fund.

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 also uses the Pensions Regulator's Public Service toolkit in addition to its own governance checklist ensuring compliance with the Pension Regulations. This will be reviewed annually and any issues will be reported to the Sub-Committee.

The risk register is reviewed regularly. The risk register is shared with the Sub-Committee and the Board on an annual basis and any high risks will be reported immediately.

The Fund also produces a breakdown of key administration performance indicators which are included in the Pension Fund Annual Report. A subset of the indicators will be presented to the sub-Committee and Board on a quarterly basis from June 2018.

Audit and Risk Management Services Division provides the internal audit for Fife Council, including the Fife 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 in 2017 by Audit and Risk Management gave rise to a number of agreed actions which are being implemented. The main points for improvement that remain are

- Development of individual training plans for Sub-Committee and Board members
- Documentation of roles and responsibilities
- Creation of a formal document list and review timetable

We are pleased to report a recent internal audit report on how well the Pensions Team controls the accurate payment of pensions to retired members concluded that there were no areas requiring improvement.

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. A fund specific risk register has been developed and it is updated on a regular basis.

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 Standards and Audit Committee has responsibility for approving the Pension Fund annual accounts and reviewing internal and external audit matters. Standards and Audit Committee agenda papers and minutes can be viewed at www.fifedirect.org.uk/news/committees
- The Sub-Committee agenda papers and minutes can be viewed at www.fifedirect.org.uk/news/committees; and
- The Fund's Annual Reports, Governance Statement and all principal documents relating to governance and risk management are available on: 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 2017 to 31 March 2018 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	Councillor Dave Dempsey
Chief Executive	Convener of the Superannuation Fund and Pensions Sub-Committee
27 September 2018	27 September 2018

Appendix A - Governance Compliance Statement

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
		Structure		
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 List of Committee Powers 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. 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)**
		Representation		
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. The Board has 4 employer representatives.	Yes	
	ii) scheme members (including deferred and pensioner scheme members);	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 Sub-Committee members 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	
		Selection and Role of Lay Members		
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 Democratic 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)
		Voting		
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.	Yes	
		Training/Facility Time/Expenses		
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. Individual training plans are being progressed. 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)
		Meetings (frequency/quorum)		
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.	
		Access		
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	
		Scope		
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	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
		Publicity		
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. Council governance documents are available on the Council website.	Yes	

Steven Grimmond
Chief Executive
27 September 2018

Councillor Dave Dempsey
Convenor of the Superannuation Fund and Pensions Sub-Committee
27 September 2018

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 to return their portion of the fund to full funding over 18 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% chance that the fund will return to full funding over 18 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £2.259bn, were sufficient to meet 93% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £172m.

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth 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 2017 valuation were as follows:-

Financial Assumptions	31 March 2017
Discount rate	3.5%
Pay increases	2.9%
Price inflation/Pension increases	2.4%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's VitaCurves with improvements in line with the CMI 2016 model with an allowance for smoothing of recent mortality experience and a 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	21.2 years	23.8 years
Future Pensioners*	22.6 years	25.8 years

* Currently aged 45.

Copies of the 2017 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 2017

Asset returns over the period have been slightly higher than the valuation discount rate and real bond yields at 31 March 2018 are at a similar level to 31 March 2017. Combining the impact of these leads to a broadly similar overall funding position at 31 March 2018 compared to the last formal valuation.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Geoff Nathan FFA

For and on behalf of Hymans Robertson LLP
20 April 2018

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

REMUNERATION REPORT

The Fife 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 Fife 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

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 for signing 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
27 September 2018

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 Fife Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2018
.

Eileen Rowand
Executive Director Finance and Corporate Services
27 September 2018

Fife Pension Fund Accounts

Fund Account

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

2016-17			2017-18
£m		Notes	£m
	Dealings with members, employers and others directly involved in the fund		
(91.091)	Contributions Receivable	6	(95.611)
(3.059)	Transfers in from other pension funds		(4.356)
(94.150)			(99.967)
74.209	Benefits Payable	7	79.131
3.524	Payments to and on Account of Leavers	8	5.089
77.733			84.220
(16.417)	**Net (additions)/withdrawals from dealings with members**		**(15.747)**
8.640	Management Expenses	9	13.203
(7.777)	**Net additions/withdrawals including fund management expenses**		**(2.544)**
	Returns on investments		
(22.841)	Investment Income	10	(24.752)
0.094	Taxes on income		0.261
(377.800)	Profit and losses on disposal of investments and changes in the market value of investments	11a	(132.439)
(400.547)	**Net return on investments**		**(156.930)**
(408.324)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(159.474)**
1,853.629	Opening net assets of the scheme at 1 April 2017		2,261.953
408.324			159.474
2,261.953	**Closing net assets of the scheme at 31 March 2018**		**2,421.427**

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 2018.

2016-17 (Restated) £m		Notes	2017-18 £m
	Investments		
2,266.916	Investment Assets	11b	2,429.038
(5.393)	Investment Liabilities	11b	(4.238)
2,261.523	**Total net investments**		**2,424.800**
	Current Assets		
4.674	Contributions due from Employers		1.904
1.506	Cash Balances		1.745
1.108	Debtors	17	0.268
7.288			3.917
	Current Liabilities		
(3.277)	Unpaid Benefits		(4.067)
(3.581)	Other Current Liabilities		(3.223)
(6.858)			(7.290)
0.430	Net Current Assets & Liabilities		**(3.373)**
2,261.953	**Net Assets of the fund available to fund benefits at the end of the year**		**2,421.427**

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 29 June 2018 and the audited accounts were authorised for issue on 27 September 2018.

Eileen Rowand
Executive Director Finance and Corporate Services
27 September 2018

Notes to the Fife Pension Fund Accounts for the year ended 31 March 2018

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 2017-18 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 chose 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 28 employer organisations within the fund (including Fife Council itself), and over 36,000 individual roles. An employee may be employed in more than one role with Fife Council. The numbers detailed in the table below represent those roles and not individual members

Fife Pension Fund	31 March 2018	31 March 2017
Number of employers	28	30
Number of employee roles		
Fife Council	14,367	14,127
Other employers	2,253	2,191
Total	**16,620**	**16,318**
Number of pensioners roles		
Fife Council	11,564	11,162
Other employers	958	832
Total	**12,522**	**11,994**
Deferred Roles	**6,894**	**5,663**
Total number of roles	**36,036**	**33,975**

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 2009	**Service post 1 April 2009**
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 up.	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 2017-18 financial year and its position at the year end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 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 2017-18, (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.

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.

AVC's are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 18)

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.

r) Prior Year Adjustments

Prior year adjustments arise as a result of a change in accounting policy, where a material error was made or it is agreed between auditors and the Fife Pension Fund to change accounting estimation techniques. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts.

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 £170.785m of these assets and it estimated that the potential impact of uncertainty is in the range of £26.683m. This is detailed in Note 13
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 Pension Fund.	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

2016-17		2017-18
£m		£m
(17.881)	**Employees' Contributions**	**(18.038)**
	Employers' Contributions	
(69.478)	Normal contributions	(73.225)
(3.732)	Augmentation contributions	(4.348)
(73.210)	**Total employers' contributions**	**(77.573)**
(91.091)		**(95.611)**

By authority

2016-17		2017-18
£m		£m
(77.190)	Fife Council	(81.585)
(5.348)	Scheduled bodies	(5.605)
(8.553)	Admitted bodies	(8.421)
(91.091)		**(95.611)**

7 Benefits Payable

By Category

2016-17		2017-18
£m		£m
54.814	Pensions	57.895
17.150	Lump sum retirement benefits	18.281
2.245	Lump sum death benefits	2.955
74.209		**79.131**

By authority

2016-17		2017-18
£m		£m
67.549	Fife Council	71.980
3.048	Scheduled bodies	2.952
3.612	Admitted bodies	4.199
74.209		**79.131**

8 Payments to and on Account of Leavers

2016-17		2017-18
£m		£m
0.227	Refunds to members leaving service	0.251
0.079	State Scheme Premiums	0.029
3.218	Transfers to other Schemes	4.809
3.524		**5.089**

9 Management Expenses

2016-17		2017-18
£m		£m
1.156	Administrative costs	1.610
7.286	Investment management expenses	11.295
0.198	Oversight and governance costs	0.298
8.640		**13.203**

Included in the oversight and governance costs is the external audit fee of £0.034m (£0.033m 2016-17)

9a Investment Management Expenses

2016-17		2017-18
£m		£m
5.510	Management fees	7.338
0.202	Performance related fees	1.746
0.417	Custody fees	0.275
1.157	Transaction costs	1.936
7.286		**11.295**

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

10 Investment Income

2016-17		2017-18
£m		£m
(5.378)	Fixed interest securities	(5.800)
(3.468)	Equity dividends	(3.999)
(7.447)	Pooled property investments	(8.374)
(2.058)	Pooled investments-unit trusts and other managed funds	(2.226)
(2.541)	Private equity	(3.453)
(0.805)	Interest on cash deposits	(0.256)
(1.136)	Securities Lending	(0.644)
(0.008)	Broker commissions recaptured	0.000
(22.841)		**(24.752)**

11a Reconciliation of Movements in Investments and Derivatives

Purchases and sales of derivatives are recognised as follows:

Futures - on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.

Options - premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arsing from early termination.

Forward currency contracts - forward foreign currency exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

2017-18	Value at 1 April 2017	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2018
	£m	£m	£m	£m	£m
Fixed interest securities	245.754	32.889	(26.855)	(3.038)	248.750
Equities	504.542	75.409	(76.612)	98.484	601.823
Pooled Investments	1,148.817	3.620	(2.236)	19.348	1,169.549
Pooled Property Investments	201.383	24.692	(22.028)	8.655	212.702
Private Equity/Infrastructure	44.754	10.533	(18.611)	2.303	38.979
	2,145.250	**147.143**	**(146.342)**	**125.752**	**2,271.803**
Derivative contracts:					
Futures	(0.090)	4.919	(4.548)	(0.424)	(0.143)
Purchased/written options	0.000	0.020	0.000	(0.020)	0.000
Forward currency contracts	0.031	0.494	(0.828)	0.322	0.019
	2,145.191	**152.576**	**(151.718)**	**125.630**	**2,271.679**
Other investment balances	0.096			0.341	0.148
Cash deposits	116.697			(0.422)	152.748
Amount receivable for sales of investments	2.385			0.043	1.754
Investment income due	2.414			0.000	2.474
Amount receivable for pending spot FX	0.001			(0.052)	0.000
Amount payable for purchases of investments	(5.261)			(0.051)	(4.003)
Total	**2,261.523**			**125.489**	**2,424.800**

The value of investment assets has increased by £163.277m in the year. Trading gains and market value movements accounted for £132.439m, of which £87.0m were unrealised. The difference between this and the £125.489m above is due to £6.950m of indirect management expenses which have been included within note 9 to the accounts

11a Reconciliation of Movements in Investments and Derivatives (continued)

2016-17 (Restated)	Value at 1 April 2016	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2017
	£m	£m	£m	£m	£m
Fixed interest securities	144.131	246.859	(155.354)	10.118	245.754
Equities	371.744	65.564	(61.670)	128.904	504.542
Pooled Investments	1,006.741	251.997	(333.286)	233.130	1,158.582
Pooled Property Investments	181.993	22.317	(14.482)	(0.963)	188.865
Private Equity/Infrastructure	39.879	3.768	(0.535)	4.395	47.507
	1,744.488	**590.505**	**(565.327)**	**375.584**	**2,145.250**
Derivative contracts:					
Futures	0.012	8.531	(9.495)	0.862	(0.090)
Purchased/written options	0.000	0.000	0.000	0.000	0.000
Forward currency contracts	(0.331)	3.541	(1.130)	(2.049)	0.031
	1,744.169	**602.577**	**(575.952)**	**374.397**	**2,145.191**
Other investment balances	(0.007)			(0.600)	0.096
Cash deposits	110.561			0.727	116.697
Amount receivable for sales of investments	0.328			(0.034)	2.385
Investment income due	2.532			0.000	2.414
Amount receivable for pending spot FX	0.000			(0.143)	0.001
Amount payable for purchases of investments	(1.240)			0.017	(5.261)
Total Investment Assets	**1,856.343**			**374.364**	**2,261.523**

11b Analysis of Investments

2016-17 (Restated)		2017-18
£m		£m
	Fixed Interest Securities	
	United Kingdom	
86.198	Public sector	89.650
42.653	Other	38.935
	Overseas	
2.981	Public sector	3.655
30.516	Other	32.062
162.348		**164.302**
	Equities	
9.980	United Kingdom - Quoted	10.825
494.561	Overseas - Quoted	590.998
504.541		**601.823**
	Index Linked Securities	
83.406	United Kingdom - Public Sector	84.448
0.000	Overseas - Public Sector	0.000
83.406		**84.448**
	Pooled Investment Vehicles	
	United Kingdom	
868.459	Unit Trusts - Equity	878.706
82.333	Unit Trusts - Fixed Income	82.510
	Overseas	
193.893	Unit Trusts - Equity	204.355
1.316	Cash Funds	1.319
1,146.001		**1,166.890**
	Pooled Property Investments	
198.630	United Kingdom	209.881
2.753	Overseas	2.821
201.383		**212.702**
	Private equity/infrastructure	
44.754	Venture Capital	38.979
44.754		**38.979**
	Other Investments	
2.817	Overseas	2.660
2.817		**2.660**
	Investment assets	
0.074	Derivative assets	0.110
116.697	Cash & Cash equivalents	152.748
0.096	Other investment assets	0.148
2.414	Investment income due	2.474
2.385	Amounts receivable from sales	1.754
121.666		**157.234**
	Investment liabilities	
(0.133)	Derivative liabilities	(0.235)
(5.260)	Amounts payable for purchases	(4.003)
(5.393)		**(4.238)**
2,261.523	**Total**	**2,424.800**

11c Investments Analysed by Fund Manager

Market Value 31 March 2017 (Restated) £m	%		Market Value 31 March 2018 £m	%
		Fund Managers		
553.154	24.46	Baillie Gifford	656.631	27.08
164.844	7.29	Janus Henderson Investors	166.673	6.87
167.312	7.40	Western Asset Management	169.267	6.98
428.571	18.95	Blackrock Investment Management (UK) Ltd	434.357	17.91
157.511	6.96	Lazard Asset Management	163.952	6.76
439.890	19.45	State Street Global Advisors	444.351	18.33
45.998	2.03	Partners Group	56.022	2.31
212.558	9.40	CBRE Global Investors	228.681	9.43
2,169.838	95.95		2,319.934	95.68
		Money Market Funds		
1.316	0.06	Standard Life Sterling Liquidity Fund	1.319	0.05
90.369	4.00	Northern Trust Money Market Fund	103.547	4.27
2,261.523	**100.00**		**2,424.800**	**100.00**

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

Market Value 31 March 2017 £m	%		Market Value 31 March 2018 £m	%
428.569	18.95	Aquila Life UK Equity Index Fund, managed by Blackrock Investment Management (UK) Ltd	434.355	17.91
193.893	8.57	Baillie Gifford Diversified Growth Fund, managed by Baillie Gifford	204.355	8.43
439.890	19.45	MPF Fundamental Index Global Equity Fund, managed by State Street Global Advisors	444.351	18.33

11d Stock Lending

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year-end, the value on loan was £168.083m (31 March 2017 £141.713m). This stock-lending programme continues to be recognised in the fund's financial statements. Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at a market value of £176.147m (31 March 2017 £149.427m) representing 104.8% of stock lent. Collateral consists of acceptable securities and government debt.

2016-17 £m		2017-18 £m
24.878	Corporate Bonds	42.783
17.098	Government Bonds	25.966
99.737	Equities	99.334
141.713		**168.083**

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 mangers.

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.

Futures

Outstanding exchange traded futures contracts are as follows:

2017-18	Expires	Economic Exposure	Assets	Liabilities
			£m	£m
Fixed Income Futures				
Overseas fixed interest	one year	3.204	0.027	
UK fixed interest	one year	(2.334)		(0.029)
Overseas fixed interest	one year	(5.554)		(0.142)
		(4.684)	**0.027**	**(0.171)**

2016-17	Expires	Economic Exposure	Assets	Liabilities
			£m	£m
Fixed Income Futures				
Overseas fixed interest	one year	5.768	0.008	
UK fixed interest	one year	(5.231)		(0.077)
Overseas fixed interest	one year	(3.112)		(0.022)
		(2.575)	**0.008**	**(0.099)**

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

Open forward currency contracts

Settlements	Currency Bought	Local Value	Currency Sold	Local Value	Assets	Liabilities
		million		million	£m	£m
One to six months	USD	0.700	GBP	(0.502)	0.000	(0.004)
One to six months	GBP	2.034	EUR	(2.302)	0.013	0.000
One to six months	GBP	3.917	USD	(5.541)	0.004	(0.031)
One to six months	GBP	1.194	SEK	(13.274)	0.063	0.000
One to six months	SEK	6.879	GBP	(0.612)	0.000	(0.025)
Up to one month	HKD	9.809	GBP	(0.888)	0.003	0.000
Up to one month	GBP	8.200	HKD	(8.949)	0.000	(0.003)
Up to one month	GBP	0.312	EUR	(0.357)	0.000	(0.001)
Up to one month	JPY	81.248	GBP	(0.545)	0.000	0.000
Open forward currency contracts at 31 March 2018					**0.083**	**(0.064)**
Net forward currenty contracts at 31 March 2018						**0.019**
Prior Year Comparative						
Open forward currency contracts at 31 March 2017					**0.066**	**(0.035)**
Net forward currenty contracts at 31 March 2017						**0.031**

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 2018

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on Increase	Value on Decrease
	%	£m	£m	£m
Freehold and leasehold property	14.30	131.806	150.654	112.958
Private equity	20.10	38.979	46.814	31.144
		170.785	**197.468**	**144.102**

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. Transfers between levels are recognised in the year in which they occur.

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 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 2018	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	1,645.155	608.860	170.785	2,424.800
	1,645.155	**608.860**	**170.785**	**2,424.800**

Values at 31 March 2017 (Restated)	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	1,505.769	534.555	221.199	2,261.523
	1,505.769	**534.555**	**221.199**	**2,261.523**

13b Reconciliation of Fair Value Measurements within Level 3

	Market value 1 April 2017	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 2018
	£m	£m	£m	£m	£m	£m	£m	£m
Overseas Property Funds	2.753	0.000	0.000	0.000	(0.290)	0.359	0.000	2.822
Overseas Venture Capital	44.754	0.000	0.000	10.533	(18.611)	0.681	1.621	38.978
UK Fixed Income	50.852	0.000	(47.246)	1.828	(1.102)	(4.425)	0.093	(0.000)
UK Property Funds	122.840	0.000		17.202	(15.035)	3.925	0.053	128.985
	221.199	**0.000**	**(47.246)**	**29.563**	**(35.038)**	**0.540**	**1.767**	**170.785**

During 2017-18 one investment was reclassified as a result of a corporate action.

14 Classification of Financial Instruments

31 March 2017 (Restated)				31 March 2018		
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
			Financial assets			
162.348			Fixed Interest Securities	164.302		
504.541			Equities	601.823		
83.406			Index Linked Securities	84.448		
1,148.818			Pooled Investments	1,169.550		
201.383			Pooled Property Investments	212.702		
44.754			Private Equity-Infrastructure	38.979		
0.074			Derivative contracts	0.110		
	116.697		Cash		152.748	
2.510			Other Investment balances	2.622		
2.385			Debtors	1.754		
2,150.219	**116.697**	**0.000**		**2,276.290**	**152.748**	**0.000**
			Financial Liabilities			
(0.133)			Derivative contracts	(0.235)		
		(5.260)	Creditors			(4.003)
(0.133)	**0.000**	**(5.260)**		**(0.235)**	**0.000**	**(4.003)**
2,150.086	**116.697**	**(5.260)**	**Total**	**2,276.055**	**152.748**	**(4.003)**
	2,261.523		**Grand Total**		**2,424.800**	

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 A 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. currencey, 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 2018 and 31 March 2017 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 2018	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	590.998	650.097	531.898
Overseas Unit Trusts	204.355	224.790	183.919
Overseas public sector bonds (quoted)	3.655	4.021	3.290
Overseas corporate bonds (quoted)	32.062	35.269	28.856
	831.070	**914.177**	**747.963**

Market Risk - currency risk 31 March 2017	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	494.561	544.017	445.105
Overseas Unit Trusts	193.893	213.282	174.504
Overseas public sector bonds (quoted)	2.981	3.279	2.683
Overseas corporate bonds (quoted)	30.516	33.568	27.465
	721.951	**794.146**	**649.757**

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 2018 and 31 March 2017 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 2018	Duration (years)	Asset Values assumed	Asset Value on increase of 1%	Asset Value on decrease of 1%
		£m	£m	£m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	13.16	89.650	77.856	101.445
UK corporate (quoted)	8.91	38.935	35.464	42.406
Overseas public sector (quoted)	18.71	3.655	2.971	4.339
Overseas corporate (quoted)	7.88	32.062	29.534	34.590
UK public sector index linked	23.08	84.448	64.955	103.941
Cash & cash equivalents				
Cash		152.748	154.275	151.220
Total		**401.498**	**365.055**	**437.941**

Market Risk - interest rate risk 31 March 2017	Duration (years)	Asset Values assumed	Asset Value on increase of 1%	Asset Value on decrease of 1%
		£m	£m	£m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	13.23	86.198	74.793	97.603
UK corporate (quoted)	8.98	42.653	38.823	46.484
Overseas public sector (quoted)	18.23	2.981	2.437	3.524
Overseas corporate (quoted)	9.54	30.516	27.606	33.426
UK public sector index linked	23.31	83.406	63.965	102.847
Cash & cash equivalents				
Cash		116.697	117.864	115.530
Total		**362.451**	**325.488**	**399.414**

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 - other price risk 31 March 2018	1 year expected volatility (%)	% of Fund	Asset Values assumed	Value on increase	Value on decrease
			£m	£m	£m
Asset Class					
UK Equities	16.80	19.20	465.475	543.675	387.275
Global Equities	17.90	42.73	1,036.139	1,221.608	850.670
Infrastructure	20.10	1.61	38.979	46.814	31.144
Property	14.30	8.02	194.555	222.376	166.734
Corporate Bonds (short term)	4.10	0.04	0.856	0.891	0.821
Corporate Bonds (medium term)	10.20	1.22	29.468	32.474	26.462
Corporate Bonds (long term)	12.60	4.95	119.951	135.065	104.837
fixed gilts (short term)	3.20	0.22	5.397	5.570	5.224
fixed gilts (medium term)	9.50	1.28	30.930	33.868	27.992
fixed gilts (long term)	12.70	2.56	61.957	69.826	54.088
UK index linked gilts (short term)	4.10	0.16	3.936	4.097	3.775
UK index linked gilts (medium term)	7.20	0.83	20.095	21.542	18.648
UK index linked gilts (long term)	9.20	2.50	60.522	66.090	54.954
Cash	0.50	6.28	152.185	152.946	151.424
Absolute Return/Diversified Growth	12.60	8.43	204.355	230.104	178.606
		100.00	**2,424.800**	**2,786.945**	**2,062.655**

Market Risk - other price risk 31 March 2017 (Restated)	1 year expected volatility (%)	% of Fund	Asset Values assumed	Value on increase	Value on decrease
			£m	£m	£m
Asset Class					
UK Equities	15.80	19.89	449.920	521.007	378.833
Global Equities	18.40	41.25	933.003	1,104.676	761.330
Infrastructure	20.40	1.98	44.754	53.884	35.624
Property	14.20	8.60	194.495	222.113	166.877
Corporate Bonds (short term)	4.30	0.03	0.587	0.612	0.562
Corporate Bonds (medium term)	10.10	1.19	26.946	29.668	24.224
Corporate Bonds (long term)	12.30	5.72	129.281	145.183	113.379
UK fixed gilts (short term)	3.20	0.24	5.492	5.668	5.316
UK fixed gilts (medium term)	9.50	1.39	31.527	34.522	28.532
UK fixed gilts (long term)	12.50	2.33	52.634	59.213	46.055
UK index linked gilts (short term)	4.00	0.06	1.276	1.327	1.225
UK index linked gilts (medium term)	7.10	0.76	17.156	18.374	15.938
UK index linked gilts (long term)	9.00	2.88	65.092	70.950	59.234
Cash	0.00	5.11	115.467	115.467	115.467
Absolute Return/Diversified Growth	12.50	8.57	193.893	218.130	169.656
		100.00	**2,261.523**	**2,600.793**	**1,922.253**

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 2018 was £2.425bn. The 1 year weighted average volatility was 11.0% at 31 March 2018, meaning the 'value on increase' would be £2.692bn and the 'value on decrease' would be £2.158bn.

16 Actuarial Valuation

Employee contributions are fixed by statute and employers' basic contributions are assessed every three years by the actuary. The last valuation of the fund was carried out as at 31 March 2017 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
2018-19	24.50%
2019-20	24.50%
2020-21	24.50%

The actuary also undertakes a valuation to present the 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 2017, with no allowance for future unfunded benefits.

	30 March 2017	31 March 2018
	£m	£m
Present Value of Promised Retirement Benefits	3,194.000	2,983.000

The valuation of the fund has been undertaken using the projected unit method under which salary increases for each member are 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 2017	31 March 2018
	%	%
Inflation / pension increase rate	2.40	2.40
Salary Increase rate	3.60	2.90
Discount rate	2.60	2.70

Demographic assumptions

	Males	Females
Future life expectancies assumed in the calculation		
Current Pensioners	21.2 years	23.8 years
Future Pensioners	22.6 years	25.8 years

Sensitivity Analysis

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

Change in assumptions at 31 March 2018	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	10%	295
0.5% increase in the Salary Increase Rate	2%	37
0.5% increase in the Pension Increase Rate	8%	232

17 Analysis of Debtors

2016-17		2017-18
£m		£m
0.232	Central Government	0.191
0.876	Other Debtors	0.077
1.108		**0.268**

18 Additional Voluntary Contributions (AVC)

2016-17 Contributions	Fund Value 31 March 2017		2017-18 Contributions	Fund Value 31 March 2018
£m	£m		£m	£m
0.088	1.165	Standard Life	0.113	1.143
0.895	2.534	Prudential	1.046	2.799
0.000	0.135	Clerical Medical	0.000	0.137
0.000	0.160	Equitable Life	0.000	0.097
0.983	**3.994**		**1.159**	**4.176**

19 Related Party Transactions

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2017-18 charged £1.496m (2016-17 £1.094m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £66.494m (2016-17 £62.183m) and collected and paid over employees's contributions of £15.091m (2016-17 £15.008m)

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:

2016-17		2017-18
£m		£m
0.288	Salary, fees & Allowances	0.278
0.288		**0.278**

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

2016-17		2017-18
£m		£m
0.063	In year employer's pension contributions	0.065
	Accrued Pension Benefits	
0.102	Pension	0.109
0.196	Lump Sum	0.197

20 Events after the Reporting Date

There have been no events since 31 March 2018, 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 2018 there were no contingent assets or liabilities.

22 Impairment Losses

No investment assets were subject ot 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:-

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

24 Prior Period Ajustments

A change was made to the accounting policy for accrued investment income to improve valuation consistency. Previously, accrued investment income was disclosed in the accounts under the Debtors heading. This year, accrued income is included within investment assets. A prior year adjustment was made to restate comparatives for the previous year.

Impact	**31-Mar-17**
	£m
Investment assets	2.413
Debtors	(2.413)
Net current assets and liabilities	(2.413)
Net assets of the fund	**0.000**

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 are listed in Schedule 1 of the Local Government Regulations and have a statutory right to join the fund. They must provide access to the LGPS in respect of their employees who are not eligible to join another public service scheme. Admission bodies are those bodies which participate in the scheme via an admission agreement. Those include bodies which carry out a public service otherwise than for purposes of gain and have a community of interest with a scheme employer or those providing a service on behalf of a scheme employer.

The list of participating employers during 2017-18 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)

Admission Bodies

St Andrews Links Trust
Fife Alcohol Support Service
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

Changes in Membership

MITIE ceased participating in the Fund on 6th October 2017
Fife Forth Valley Community Justice Authority ceased participating in the Fund 31st March 2018

APPENDIX A

FIFE PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES
(November 2017)

1.0 Introduction

1.1 This is the Statement of Investment Principles (the “Statement”) of the Fife Pension Fund (“the Fund”), which is administered by Fife Council, (“the Administering Authority”). The Statement 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 describes the objectives, policies and principles adopted by Fife Council in undertaking the investment of fund monies. This Statement has been prepared by the Committee having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

1.3 Fife Council is an administering authority under the terms of the Local Government Pension Scheme and is required to maintain a pension fund out of which retirement and death benefits are payable to scheme members.

1.4 Fund’s monies arise from contributions made by scheme members and employers and from the investments held by the Fund. Member contributions are set according to the level of each individual’s pay. Employer contributions are set every three years by the Scheme actuary, whilst the benefits of the scheme are prescribed nationally by Regulations made under the terms of the Public Service Pensions Act 2013 by the Scottish Government.

1.5 The Statement is subject to review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

1.6 A copy of this Statement has been provided to the Fund’s investment managers and engagement and voting provider, which are required to follow the principles that it sets out. This Statement is published on FifeDirect website.

2.0 Governance & Effective Decision-Making

2.1 The Council has set up The Superannuation Fund and Pensions Sub-Committee (the “Committee”) which has executive responsibility for the Fund. The Committee comprises nine representative Councillor Members and is supported by a statutory Pension Board consisting of four Trades Union and four employer representatives, the latter comprising two elected members and one each from the scheduled and admitted bodies.

2.2 The Terms of Reference for the 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…."

2.3 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.

2.4 Staff from Democratic Services record attendance at Sub-Committee meetings, trainings, seminars and conferences.

2.5 Regular training is offered to the members of the Sub-Committee, provided by appropriate varied sources. Staff from Democratic Services record attendance.

2.6 The Executive Director, Finance and Corporate Services and other staff provide technical support to the Sub-Committee as necessary. In addition, professional advice is considered from investment consultants and actuaries.

3.0 Objectives

3.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

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 The Committee aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.

4.0 Investment Strategy

4.1 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

4.2 The investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The Fund's current investment strategy takes account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the Fund's funding level.

4.3 The strategic asset allocation, which comprises a mix of growth and defensive assets, has been set taking account of the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility, risk and the nature of the Fund's liabilities. The current strategic asset allocation is as follows:

Asset Class	Strategic Allocation %
Growth	**80%**
Equities	55%
Property	10%
Absolute Return	10%
Infrastructure	5%
Defensive	**20%**
Bonds	20%

4.4 The Committee monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation.

4.5 The expected long-term return, based on market conditions as at 31 March 2017, has been estimated by the Fund's investment consultant to be 5.0% p.a. with an expected annual volatility of return of 10.0% p.a. The Committee notes that this estimate will change over time as market conditions evolve.

5.0 Implementation of Investment Strategy

5.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. Characteristics of the main types of investments held by the Fund are set out below:

5.1.1 UK Equities provide an equitable share in the assets and profits of listed UK companies. Income is provided through share dividends which, although variable in amount from year to year, have historically over the longer term risen above inflation. Equities produce capital gains/losses as share prices reflect investors' expectations of the prospects of a specific company, sector or market.

5.1.2 International Equities are similar to UK Equities but with exposure to the currency of the market where the share is listed. The investment returns can be enhanced, or reduced, by the appreciation or depreciation respectively of the market currency against sterling.

5.1.3 Property is investment in land and/or buildings such as Offices, Retail and Industrial. The income comes from the rents payable. Property prices primarily reflect the rents they are able to produce and investor demand. Investors can invest either directly in individual properties or alternatively through a stake in collective investment vehicles set up to invest in a portfolio of property assets.

5.1.4 Diversified Growth investment is undertaken with the aim of providing the Fund with equity like returns but with less risk than one would associate with an equity type investment. This is achieved through the manager investing in a diversified range of asset classes. This could include equities, bonds, cash, currency and interest rate plays. In times of strongly rising markets, diversified growth returns are likely to lag market returns. However in times of falling markets, the low correlation of the portfolio components should enable losses to be lower than those sustained in the market.

5.1.5 Infrastructure involves investment in public utility projects, such as toll roads, airports, car parking, renewable energy, water utility etc. The investment will generally be in assets that are deemed essential to the orderly functioning of daily life. The assets – which may be public or private – will be in public demand and should deliver a regular income on a risk adjusted basis.

5.1.6 Fixed rate bonds are debt instruments issued by Governments and other borrowers. Bonds provide a fixed rate coupon payment and are generally redeemed at par by the issuer at a pre-determined future date. The price primarily reflects the fixed level of interest, the term to redemption and the overall return (the yield) demanded by investors. Prices of bonds tend to fluctuate less than the prices of equities.

5.1.7 Index Linked Bonds are bonds issued by the UK Government. They provide coupon payments and redemption value directly linked to price inflation as measured by the Retail Price Index (RPI). Similar index linked securities are issued by a number of overseas governments but they have additional exposure to fluctuations in the exchange rate.

5.1.8 The Fund's investments also include cash. Cash is held in the Pension Fund bank account to meet the day to day operational needs of the Fund.

5.2 The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risk.

5.3 The Committee reviews the nature of Fund investments on a regular basis with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate training and advice is sought.

5.4 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 constraints which are set out in the respective investment management agreements or pooled fund documentation.

5.5 The Committee has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Details of the appointed managers and mandates are set out in Appendix A.

5.6 A global custodian is appointed to ensure the safekeeping of the assets. The Northern Trust Company has been appointed as global custodian of the Fund's assets.

5.7 The majority of the Fund's investments may be realised quickly if required. It is recognised that property and infrastructure, which together represent approximately 15% of total assets, are illiquid investments and may be difficult to realise quickly.

6.0 Control of Risks

6.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. The Committee monitors the risk being taken and where possible looks to manage and mitigate these risks.

6.2 The principal **Funding risks** affecting the Fund are:

- **Financial mismatch** – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- **Changing demographics** –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- **Systemic risk** - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

6.3 The Committee measures and manages financial mismatch in two ways:

6.3.1 As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

6.3.2 The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

6.4 The principal **asset risks** affecting the Fund are:

- **Concentration** - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- **Illiquidity** - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- **Currency risk** – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- **Environmental, social and governance ("ESG")** – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns. Details of the Fund's approach to managing ESG risks is set out later in this document.

- **Manager underperformance** - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified exposure to currency markets. The Committee has chosen not to directly hedge currency risk within the Fund.

6.5 The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund's assets managed on a passive basis. The Committee assesses the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

6.6 **Other risks** affecting the Fund are:

- **Transition risk** - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- **Custody risk** - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- **Credit default** - The possibility of default of a counterparty in meeting its obligations.
- **Stock-lending** – The possibility of default and loss of economic rights to Fund assets.

6.7 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns be identified.

7.0 Performance assessment

7.1 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 benchmark.

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

8.0 Social, Environmental and Ethical Considerations

8.1 The Committee recognise that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns.

8.2 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.

8.3 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.

8.4 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. This service extends to the actively managed equity mandates. Voting and engagement for passively managed mandates remains the responsibility of the appointed fund managers.

8.5 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.

8.6 HEOS typically conducts engagement and voting related dialogues with companies in confidence and will not disclose Fife Pension Fund’s involvement in such engagements, unless specifically agreed in advance.

8.7 Annual reports are provided by HEOS and the Fund’s investment managers to the Sub-Committee on the engagement and voting carried out on its behalf.

9.0 Compliance

9.1 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.

9.2 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 2010 – A Guide to the Application of the Myners Principles. Details of compliance are shown in Appendix B.

Finance and Corporate Services
Fife House
Glenrothes
November 2017

THE FIFE PENSION FUND AND THE MYNERS PRINCIPLES

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

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

APPENDIX C

FIFE PENSION FUND COMMUNICATION POLICY

(May 2018)

Introduction

Fife 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.

<u>Active Scheme members – currently contributing to the Scheme</u>

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

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

An annual benefit statement is made available to all active members through the Member Self Service facility. Benefit statements can be issued in paper form on receipt of written request.

By post

- Statutory confirmation of membership.
- 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.
- Presentations – 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 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 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

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

Member Self Service

Member self service has been rolled out to deferred members.

Once registered, a deferred member can

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

An annual benefit statement is made available to all deferred members through the Member Self Service facility. Benefit statements can be issued in paper form on receipt of written request.

By post

- 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.
- Valuation report
- 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. 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 currently developing Member Self Service to be rolled out for pensioner members. This will allow pensioner members to view their monthly pension payments and change bank details.

Employers will 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
Website: www.fifedirect.org.uk/lgps

APPENDIX D

FIFE PENSION FUND - FUNDING STRATEGY STATEMENT

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Fife Council Pension Fund ("the Fund"), which is administered by Fife Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2018.

1.2 What is the Fife Council Pension Fund?

The Fund is part of the Scottish Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole country. The Administering Authority runs the Fife Council Pension Fund, in effect the LGPS for the Fife Council area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the various LGPS Regulations applicable to Scotland. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Funding Strategy Statement - Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for a Funding Strategy Statement, as given in Funding Strategy Statement - Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations applicable in Scotland;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions and cessations;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: you will want to know how your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- 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.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In Section 5 we outline the purpose and nature of the Scottish Public Pensions Agency's oversight of LGPS valuations.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Laraine Cunningham in the first instance at e-mail address Laraine.Cunningham@fife.gov.uk or on telephone number 03451 555 555 and when prompted enter Ext 440897.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Funding Strategy Statement - Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Funding Strategy Statement - Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Funding Strategy Statement - Appendix D. Employer contributions are normally made up of two elements:

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

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: colleges, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Funding Strategy Statement - Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Funding Strategy Statement - Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which colleges and universities pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments over the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Funding Strategy Statement - Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies		Transferee Admission Bodies
Sub-type	**Fife Council**	**Police, Fire, Colleges etc**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Funding Strategy Statement - Appendix E)		Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Funding Strategy Statement - Appendix E)
Primary rate approach	(see Funding Strategy Statement - Appendix D – D.2)				
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	18 years	18 years	Lower of future working lifetime or remaining contract period		
Secondary rate – Note (d)	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	66%	70%	75%	80%	75%
Phasing of contribution changes Note (f)	Covered by stabilisation arrangement	3 years	3 years	3 years	None
Review of rates – Note (g)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Reviewed annually by request in last 3 years of contract
New employer	n/a	n/a	Note (g)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs closed to new entrants)

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2017 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	**Fife Council**
Max cont increase per year	+0.9% of pay each year
Max cont decrease per year	-0.9% of pay each year

The stabilisation criteria and limits will be reviewed at the 31 March 2020 valuation, to take effect from 1 April 2021. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2018 for the 2017 valuation). The Administering Authority would normally expect the same end point to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where an employer closed to new entrants over the inter-valuation period.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Funding Strategy Statement - Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers;
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

Note (g) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted which will increase the funding target and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (h) (New Admission Bodies)

All new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond, as set out in the LGPS Regulations. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, or the Scottish or UK Government, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) <u>Pooling</u>

Under this option, the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) <u>Letting employer retains pre-contract risks</u>

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) <u>Fixed contribution rate agreed</u>

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit. This is also referred to as a "pass-through" arrangement.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to its own decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required;

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Funding Strategy Statement - Appendix E; or

(c) Again, depending on the nature of the guarantee, it may be possible to simply pool the former Admission Body's liabilities and assets with the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible, then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2017 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

3.5 Those employers which have been pooled are identified in the Rates and Adjustments Certificate. Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2009 and April 2015). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread over a variety of time periods depending on the employer.

3.7 Ill health early retirement costs

Admitted Bodies may have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If this approach is adopted and the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Otherwise the charge will be calculated on an individual basis as each ill-health retirement occurs using the same basis as applies for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is terminated.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (i)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

   In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases.

3.10 Policies on bulk transfers

The Fund is in the process of developing a policy to cover bulk transfer payments into, out of and within the Fund. However, the agreement in general will be:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the members' past service liabilities of the transferring members;
- Where the entire membership of the employer (i.e. active, deferred and pensioner members) transfers out, the Fund will not pay a bulk transfer greater than the asset share of the transferring employer;
- Each case will be treated on its own merits
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Funding Strategy Statement - Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the Government (see Funding Strategy Statement - Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2021, it should be noted that this will need to be reviewed following the 2020 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, every 6 months. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers, on each of the LGPS Funds in Scotland. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional SPPA oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, SPPA may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy; and
3. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

SPPA may assess and compare these and other metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Funding Strategy Statement - Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The purpose of the FSS is:

"to establish a ***clear and transparent fund-specific strategy*** *which will identify how employers' pension liabilities are best met going forward;*

to support the regulatory framework to maintain ***as nearly constant employer contribution rates as possible****; and*

to take a ***prudent longer-term view*** *of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish an FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in Fife Direct for comment;

b) Comments were requested within 30 days;

c) There is an Employers Forum on 07 February 2018 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in LGPS Website and FISH/FifeDirect.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website.

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to employee/pensioner representatives;

A full copy linked from the annual report and accounts of the Fund on the website at www.fifedirect.org/lgps

Copies sent to investment managers and independent advisers;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2020.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Administration Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.fifedirect.org.uk/topics/LGPS on the Pension Fund Annual Reports page.

Funding Strategy Statement - Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures; and
6. the SPPA/Scottish Ministers (assisted by the Government Actuary's Department) and the Scottish LGPS Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Funding Strategy Statement - Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation monitoring of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance; reviewed at least every three years.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk.

Risk	Summary of Control Mechanisms
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2014 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any SPPA/Scottish Ministers intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.

Risk	Summary of Control Mechanisms
	Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (g) and (i) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Funding Strategy Statement - Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Funding Strategy Statement Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Funding Strategy Statement - Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Funding Strategy Statement - Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to SPPA (see section 5), is calculated in effect as the sum of all the individual employer rates. SPPA currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the Primary rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details), and

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Funding Strategy Statement - Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below);
2. within the determined time horizon (see 3.3 Note (c) for further details); and
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;

8. the difference between actual and assumed amounts of pension ceasing on death;

9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or

10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of regular employer contributions within any financial year;

2. the actual timing of transfers in or out of the Fund; and

3. the actual timing of changes in the benefit payments made due to retirements and deaths.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Funding Strategy Statement - Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term or poses an elevated risk to the Fund, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2017 and setting contribution rates effective from 1 April 2018, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2014 valuation (1.6% per annum), which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for many public sector employees is currently subject to restriction. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2017 valuation has been set to be a blended rate combined of:

1. 1.5% p.a. until 31 March 2020, followed by

2. 1% above the consumer prices index (CPI) p.a. thereafter.

This gives a single “blended” assumption of CPI plus 0.5%. This is a change from the previous valuation, which assumed a flat assumption of CPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have assumed CPI to be 1.0% per annum less than RPI. This is a larger difference than at 2014 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2016 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2014.

The combined effect of the above changes from the 2014 valuation approach, is to reduce life expectancy by around 0.7 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Funding Strategy Statement - Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates,

	benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, some universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, and usually individual employer Primary and Secondary contribution rates. This is normally carried out in full every three years (last done as at 31 March 2017), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

ADDITIONAL INFORMATION

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

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

Telephone: 01592 583278

Independent auditor's report to the members of Fife Council as administering authority for Fife 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 report of Fife Pension fund (the fund) for the year ended 31 March 2018 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 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the fund during the year ended 31 March 2018 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 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion
I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). 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 Standard, 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.

Conclusions relating to going concern basis of accounting
I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director Finance and Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Executive Director Finance and Corporate Services and Fife Council for the financial statements

As explained more fully in the Statement of Responsibilities, 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.

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

Fife Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit 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) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Executive Director Finance and Corporate Services is responsible for the other information in the annual report. 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, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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 Corporate 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
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27 September 2018

Fife
Pension Fund

Administered by Fife Council

Fife
COUNCIL