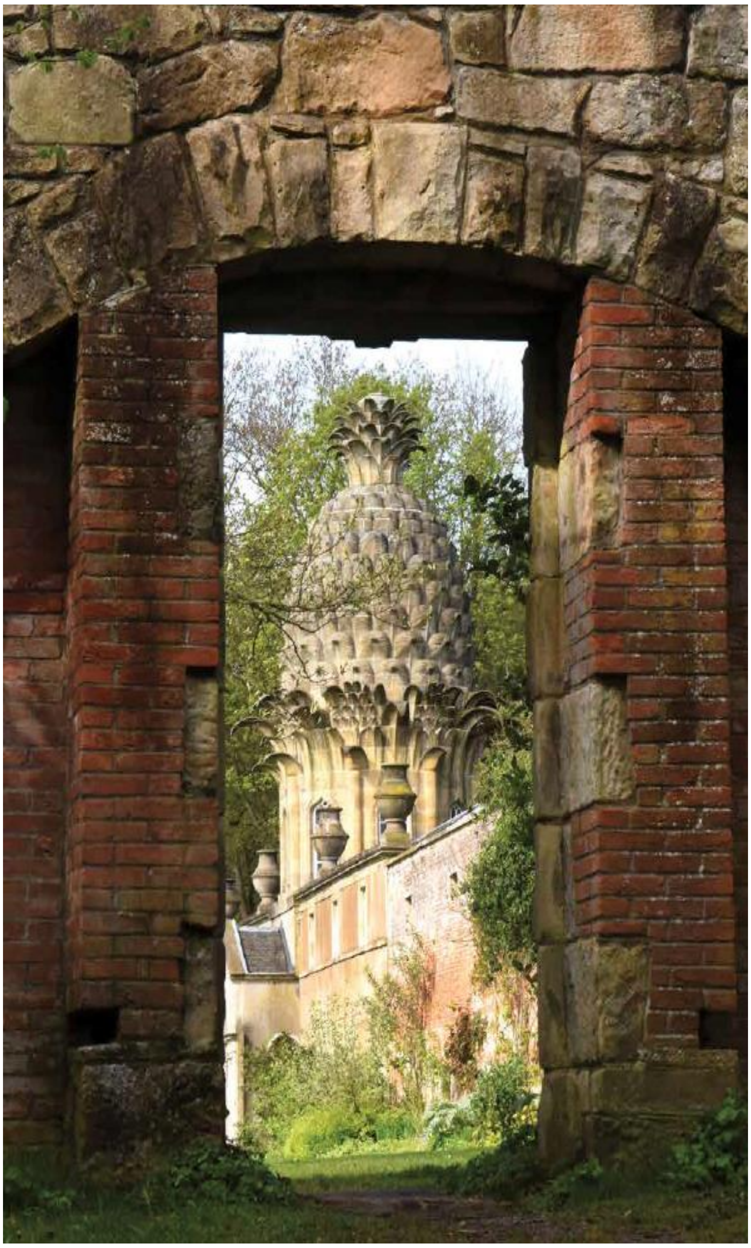

FALKIRK COUNCIL PENSION FUND AUDITED ANNUAL REPORT AND ACCOUNTS 2022/23

Falkirk Council

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Foreword from the Chair of Pensions Committee

As Chair of the Pensions Committee with responsibility for overseeing the investment management and administration of the Falkirk Council Pension Fund ("the Fund"), I am pleased to introduce the 2022/23 Annual Report and Accounts.

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

The overarching theme for 2022 was uncertainty. The continuation of the war in Ukraine, the market volatility following the September 2022 mini-Budget coupled with the rapid and persistent rise in inflation, surging energy prices and disruption in the food supply chain resulted in a rapidly changing environment for the Fund to navigate.

Whether the change was social, political, technological or climatic, which impact everyone, or those more specific to us as a Fund. Change and uncertainty are all around us bringing opportunities and risks that demonstrate the need for our robust approach to protecting our Pension Fund members and employers, investing responsibly and ensuring good governance.

As a body that strives to generate investment returns to help pay for member benefits, the uncertainty within the financial markets during 2022/23 has presented the Fund with significant challenges and I am delighted to report how successfully the Fund has responded to these challenges.

Our Investment Strategy is designed to both responsibly manage risks and deliver strong (real) returns that grow to cover cashflows over the longer term. The last Valuation showed the Fund to be in a healthy state with a funding level of 94% at 31 March 2020. Pleasingly, this is estimated to have risen further to 132% at 31 March 2023 and even though markets were turbulent, performance over the year was positive at 0.8% (which is 12.8% above the benchmark). Our average annual performance over the last 5 years has been 7.2%. Our successful financial performance is supported by our commitment to investing prudently which we believe will deliver sustainable, long-term returns.

The long-term nature of the Fund is the reason why it can still afford to take a long-term view when it is investing. This is because it remains open to new members and is sponsored by employers that are mostly Government backed or have revenue raising powers.

Unlike some private sector pension funds who had to sell assets following the market turbulence arising from the September 2022 mini-Budget, the Fund remains cash flow positive and is consequently, under no pressure to be a forced sellers of assets in times of market disruption. In these unpredictable times, the Fund's approach of holding a well-diversified range of assets including equities, property, infrastructure and bonds continues to prove a sound strategy.

I know that the Fund's role in trying to safeguard our environment from climatic change and lower our reliance on fossil fuels is also a top priority for many of our members. I can confirm that the Fund remains committed to playing an active part in the transition to a lower carbon world and joined ShareAction's call to action in January 2023 to request certain banks to stop funding new oil and gas developments. We are also members of several other lobbying organisations which argue for a Just Transition and our Statement of Responsible Investment Principles reserves the right to divest from a company failing to address climate risks. We have also engaged the professional services of Hermes EOS to engage constructively with companies and lobby, on our behalf, on strategic and sustainability matters to drive positive outcomes.

Readers of previous Annual Reports will know that the Fund supports the concept of the eleven Scottish LGPS Funds merging into larger entities. In 2020/21 the Fund engaged with Lothian Pension Fund to look more closely at the risks and opportunities that might be associated with a merger. While the decision has been taken not to progress with a merger, the Fund will continue to work closely with Lothian Pension Fund strengthening collaboration and existing relationship to benefit both funds and members.

Finally, in conclusion, can I take this opportunity to thank my colleagues on the Committee and Board for their dedication and efforts during the past year. To all readers, I hope you find the Annual Report and Accounts for 2022/23 helpful and informative.

Lorna Binnie

Councillor Lorna Binnie

Chair of the Pensions Committee

08 December 2023

Statement from the Chair of the Pension Board

It has been an interesting twelve months since the last report which has seen significant volatility and turbulence in the financial markets. From historic highs in inflation to the adverse market reaction to the September mini-Budget. Good governance has protected the Fund with performance over the year being positive at 0.8% (which was 12.8% above the benchmark) and an average annual performance of 7.2% over the last 5 years. Our successful financial performance is supported by our commitment to investing prudently which we believe will deliver sustainable, long-term returns.

Throughout the year the Pension Board has exercised its principal responsibilities in respect of assisting the Scheme Manager with legislative and regulatory compliance of the scheme's governance and administration. Board members have consistently attended Pension Committee meetings and have been given full opportunity to provide their perspective and question the Scheme Manager and their advisers on all important matters to ensure appropriate governance. The Board has not had to ask the Committee to review any of its decisions – an indication that the Scheme's governance and administration is effective.

Committee and Board members are also required to undergo continuous training and development to keep their pensions and other relevant knowledge up to date. For most of the last year, these events have taken place as a hybrid face to face and virtual environments and to improve accessibility it is intended that future training events will be held as hybrid events.

There has been one change in Board membership during the year, Nicola Griffin has joined the Pension Board as the employer representative from Strathcarron Hospice. She replaces Simon Hunt who stood down following the March meeting.

While the Scheme Advisory Board (SAB) undertook a review of the structure of the Scottish Local Government Pension Scheme, building on our history of close collaboration, Falkirk and Lothian Pension Funds invested time and effort to further explore the possible merger of the two funds. The discussions about the merger were overseen by the Joint Oversight Committee which included the Chairs and Convenors of both Funds. An investigation was also carried out to identify the expected benefits, disadvantages, costs and risks of a merger. This was a complex piece of work and while the decision has been taken not to progress with a merger, the Fund will continue to work closely with Lothian Pension Fund strengthening collaboration and the existing relationship to benefit both funds and members.

Finally, as Chair of the Board, I would like to thank the entire Pensions Team, my fellow Board members, the Committee and Council Officials, both current and retired, for their outstanding efforts at a time of ever-changing circumstances.

David Morgan

pp Tony Caleary

Chair of the Pension Board

David Morgan was a Chair of the Board during the year Accounts were prepared for and it has been replaced by Tony Caleary in June 2023 in line with the annual rotation.

Contact us

Enquiries	
Falkirk Council Pension Fund The Foundry 4 Central Boulevard, Central Park Larbert, FK5 4RU Tel: E-mail:	 01324 506329 pensions@falkirk.gov.uk
Website:	www.falkirkpensionfund.org

Management of the Fund

Scheme administrator	Falkirk Council
Fund Officers	Amanda Templeman, Chief Finance Officer Catherine Carruthers, Pensions Manager
Actuaries	Hymans Robertson LLP
Bankers	The Royal Bank of Scotland
Custodian	The Northern Trust Company
Investment Advisers	Joint Investment Strategy Panel incl. independent advisers Kirstie McGillivray, Stan Pearson
Legal Advisers	Lothian Pension Fund (secondment arrangements) Falkirk Council Legal Services
Additional voluntary contributions (AVC) providers	Prudential Standard Life
External Auditor	Audit Scotland, 4th Floor, South Suite, The Athenaeum Building, 8 Nelson Mandela Place, Glasgow G2 1BT

Fund Managers

Equity
Abrdn
Legal and General
Lothian Pension Fund Investments Ltd (LPFI)
Newton Investment Management
Pictet Asset Management
Schroders Investment Management
Wilshire
Other Real Assets
Abrdn
Astatine Investment Partners
Ancala
Ardian
Brookfield Infrastructure

Dalmore Capital
Equitix
Global Infrastructure Partners
Greensphere
Gresham House
Grosvenor Capital
Harbert Investment Management
Hearthstone
Hermes
Infracapital Greenfield Partners
InfraRed Capital
Innisfree
Iona Capital
KKR
Legal & General
Macquarie
Meridiam
Oaktree Capital
Octopus Real Estate
Resonance British Wind
Schroders Investment Management
The Unite Group
UBS
Vauban
LDI and Gilts
Alcentra
Apogem Capital
Baillie Gifford
Barings
Blackrock
CVC Credit Partners
Lothian Pension Fund Investments Ltd (LPFI)

Annual Report and Accounts

This is the Annual Report and Accounts for the Falkirk Council Pension Fund for 2022/23.

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

Performance headlines	2019/20	2020/21	2021/22	2022/23
Funding Level	94%*	106%	113%	132%
Admin cost per member in £	25.96	26.72	26.61	32.67
Investment return %	-6.6	22.3	13.1	0.8
Performance v benchmark %	-6.9	+0.6	+6.9	+12.8
External audit outcome	Unqualified	Unqualified	Unqualified	Unqualified

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

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

About the Falkirk Council Pension Fund

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

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

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

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

The larger Fund employers are Clackmannanshire, Falkirk and Stirling Councils, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA) and Strathcarron Hospice. Other employers include several non-profit making charitable bodies located in Central Scotland, as well as two contractors (Amey and Forth & Oban Ltd) to whom school facilities maintenance has been transferred. A full list of Fund employers is given in Appendix 2 and their contributions are shown on page 30.

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

About the Local Government Pension Scheme (LGPS)

- The LGPS is a nationwide pension arrangement for people working in local government and is one of the largest schemes in the UK with over six million members.
- Local authorities and certain other public bodies are required by law to operate the Scheme. Other organisations such as charities, non-profit making entities and contractors may apply to join the Scheme.
- The LGPS (Scotland) is the version of the Scheme which applies to local authorities in Scotland. Other versions apply in England and Wales and in Northern Ireland.
- The Scheme consists of around 100 regional pension funds across the UK of which 11 are based in Scotland – one of which is the Falkirk Council Pension Fund.
- The LGPS is a funded scheme, which means monies are being set aside to pay for benefits as they fall due, thus helping to reduce the costs falling on future generations.
- The LGPS is a defined benefit scheme providing a range of high-quality inflation linked benefits based on members' salaries and, where the member was in service before 1 April 2015, their years of scheme membership. Unlike other forms of pension provision, benefits do not depend on investment performance.
- For more information about LGPS (Scotland), please visit www.falkirkpensionfund.org or www.pensions.gov.scot/local-government

Management Commentary

Summary

The defining events of 2022/23 for the Fund have been the historic high level of inflation, the continuation of the Russian invasion of Ukraine and the pressures this has brought to supply chains. These events have produced a variety of challenges throughout the year, both micro and macro. Operationally, the Pensions team has been able to continue delivering an efficient and full range of services to stakeholders. Economically, the Fund is in a strong position to weather the storm of global volatility in the financial markets and rising inflation.

During the year, the Fund delivered an investment return of 0.8%, which was 12.8% more than the benchmark return of –12.0%. The Fund remains in a healthy condition and is also cash flow positive, so is capable of paying member benefits out of current income as they fall due.

At 31 March 2023, the Fund had assets of £3.2 billion (£3.2 billion at 31 March 2022) and the actuary estimates an increase in funding level to 132% based on rolled forward figures and assumptions adopted at the 2020 Valuation. A strategic investment review to ensure the Fund charts a prudent and appropriate investment course was undertaken in 2021/22. Following the completion of this review a slight alteration to the allocation of LDI (liability driven investment) and Non-Gilt Debt was made, and the Statement of Investment Principles was updated accordingly.

The remainder of this commentary looks at the Fund's business model, the key themes feeding into 2022/23, and management's observations on the overall performance and the outlook for the Fund.

Business Model

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

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

The Fund is managed and administered from the Foundry in the Central Business Park, Larbert. However, staff continue to be home and office based in a hybrid working arrangement.

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

The work of the Team covers the following areas of activity:
- Membership and benefits administration
- Investment
- Governance and risk management
- Funding
- Accounting
- Communications

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

Investment of the Fund's assets is undertaken by a range of specialist managers. Investment strategy is set by the Pensions Committee. Implementation of the strategy is delegated to the Chief Finance Officer. Both Committee and Chief Finance Officer receive advice from investment professionals (i.e. the Joint Investment Strategy Panel - JISP). Investment mandates are overseen by the Pensions Team. More Information about the Fund's investment management arrangements is given on page 47.

Governance and risk management is the responsibility of the Pensions Committee to whom Fund business has been delegated by Falkirk Council. The Committee is supported by the Pension Board to ensure that decisions are made in line with the rules of the Scheme and in accordance with good practice. More information on Fund Governance can be found on page 18. Information on Risk Management can be found on page 71.

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

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

Communications are delivered via:
- the Pension Fund website
- Annual member newsletter / benefit statement
- Pensioner payslip messaging

Governance All of the joint Pensions Committee and Board meetings were quorate and discussed a full diet of business, including Fund Investments, Business Continuity Plans for the Fund, the Annual Report and Accounts and Annual Audit Reports.

Full details of the Fund's Governance arrangements can be found on page 18 and in the Governance Compliance Statement.

Risk
An updated version of the Risk Register was approved by the Pensions Committee at its meeting on 17 March 2022. It documented the highest risks to the Fund as being climate change; succession planning; lack of knowledge from those responsible for governance; compliance failure; and cyber security. Several risks were downgraded including Covid-19, on account of the mitigations, and succession planning in view of the appointment of a new Pensions Manager and additional staff resourcing.

A significant part of the risk register is devoted to investment risk given that it is critical to the Fund's ability to pay benefits and maintain stable employer rates. A myriad of risk elements go to make up investment risk, including market risk, liquidity risk, currency risk, economic risk and political risk. These are all described in more detail in the Fund's Statement of Investment Principles. Clearly, the challenging economic environment and cost of living crisis pose an increased level of investment risk for the Fund. However, we are confident that our governance arrangements, which link the Pensions Committee, the Chief Finance Officer, and the Joint Investment Strategy Panel, along with our diversification strategy, position the Fund sensibly in the face of these headwinds.

A new risk was added to the register in March 2022 to cover the potential for merger work to be a distraction from "business as usual". All parties are clear that merger work must not interfere with normal service standards.

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

Investment Arrangements
A review of the Fund's investment strategy in 2021 concluded that the Fund's asset allocation remained appropriate with only some minor changes required.

During the financial year, the Fund completed the move of its holding in the Baillie Gifford Diversified Growth Fund to a passive Index-Linked Gilts mandate managed by Lothian Pension Fund Investments Ltd, in line with the Fund's Investment Strategy. The expansion to the Gilts portfolio was made to help reduce the underweight position to fixed income securities and to take advantage of the lower pricing occasioned by rising yields.

Allocations to new and existing Real Asset managers continued to be made during the year.

The Fund continues to work with Hermes EOS, as Engagement provider to the Fund, to ensure that the Fund's responsible investment principles in areas such as climate change and human rights are effectively argued.

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

McCloud

In mid-2019, the Court of Appeal decided in the “McCloud” case that certain provisions of the LGPS introduced in 2015 to protect older members of public service pension schemes amounted to age discrimination. Since the hearing, Government and associated agencies have been considering how to remedy the situation. The exact details of the solution are still to be fixed on and will be subject to a further consultation. However, it is still expected that the remedy will be implemented by 1 October 2023.

The chosen method of redress is to “level up” protections and extend the “statutory underpin” to a broader range of members. This will be applied retrospectively to 1 April 2015 and will have cost and administration implications. A report commissioned from Hymans Robertson indicated that a potential 9,750 Falkirk members could be impacted if the likely remedy was adopted, requiring an additional 800 hours of resource to process.

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

Cost Cap

The Cost Cap is the mechanism through which risks around the cost of the Scheme are shared between employer and member. It acts as a safety valve so that, in the event of the Scheme becoming significantly more (or less) expensive than expected, member contributions or benefits can be changed. Initial actuarial analysis suggested that members should get improved pension benefits for membership over the period April 2019 to March 2023. However, the identified discrimination in the McCloud judgment, which determined that a protection given to older Scheme members was age discriminatory when the Scheme reformed in 2015, meant higher costs arose resulting in no change to benefits or member contributions for the period 2019 to 2023. Although this position is yet to be confirmed in Scotland, the decision to include the McCloud remedy costs in the Cost Cap mechanism was challenged by six trade unions – the Fire Brigades Union (FBU), GMB, PCS, Prison Officers Association, the Royal College of Nursing and Unite. The challenge was unsuccessful, and the High Court ruled in favour of HM Treasury on all grounds. The judge also refused permission to appeal, but the FBU and other parties can apply for permission to appeal directly to the Court of Appeal.

Relationship with other Pension Funds

The Fund has a collaborative working arrangement on investment matters with the Lothian and Fife Pension Funds with the object of delivering improved outcomes for

Fund stakeholders through cost savings and quality of decision making. Savings come from investing collaboratively at scale and by being able to access private markets. In terms of the level of service received, the Fund has the reassurance that its assets are being monitored continually by the Lothian Pension Fund in house investment team (LPFI Limited) with strategic oversight coming from the Joint Investment Strategy Panel which consists of four investment specialists, two of whom are independent of the Lothian Pension Fund.

To formalise the relationship, the Fund has entered into a shared service agreement with LPFI Limited, the regulated vehicle of Lothian Pension Fund. This provides the Fund with investment arrangement and advisory services and is the key to allowing the Fund to access investments in private markets. The Fund has an investment management agreement with LPFI Limited authorising them to manage a liability driven investment (formerly known as gilts) mandate, TIPS (Treasury inflation protected securities) and GLOVE (Global Low Volatility Equities) mandate.

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

Whilst the current arrangements relate mainly to investment matters, the Fund continued to explore the possibilities of collaboration in other areas, such as scheme administration with a view to a potential merger of the Lothian and Falkirk Council Pension Funds. A merger of the type explored is complex and challenging and closer working to align operations continues.

Review of Scheme Structure

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

Consultation responses were considered by the SAB during 2019 and since then the project group has researched and extensively analysed existing reports and information relating to the options for the future. A gap analysis of information which would be needed to develop a detailed business case for the various options has also been undertaken.

However, to take this project through to completion in the specified level of detail requires more time and resources. In consequence, the SAB were asked by Scottish Ministers to pause work on the structure review until the outcome of the English and Welsh review of the ‘Pooling’ agenda becomes clear and the process of the proposed merger and governance model of the proposed LPF and FCPF merger is established.

Falkirk remain of the view that a merged structure is an option which should be explored and management worked with the LPF to better understand the challenges of a fund merger. Following an in depth review the City of Edinburgh Council has agreed to work closely with Falkirk Council to better align operations while a final decision on a merger is made.

Scheme Changes

The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022 came into force on 1 June 2022 and made the following changes to the Scheme rules:

- put surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members in a similar position to female survivors of male married members
- the right for deferred members who left before 1 April 2015 to elect to receive early payment at a reduced rate on or after age 55 without needing the employer's consent was corrected to follow the policy intent of the 2019 Miscellaneous Regulations
- remove the requirement for extra scheme pension that is bought through Additional Pension Contributions (APCs) to be costed by reference to the member's gender
- require a valuation for an exiting employer to be fixed for 90 days
- provide administering authorities with additional flexibility when dealing with exiting employers who have a deficit on exit.

GMP Reconciliation

The exercise to reconcile HM Revenue's Guaranteed Minimum Pension data with that of the Fund concluded in October 2022. The Local Government Pension Scheme (Increased Pension Entitlement) (Scotland) Regulations 2019 means that any GMP related pension overpayments will not be recovered. More information on this topic can be found in Note 24.

Data Quality Standards

The Regulator requires that Funds take a pro-active approach to improving data quality. Accordingly, each year the Fund undertakes an annual data quality exercise in which Fund data is assessed against approximately 100 individual tests. The 2022/23 exercise disclosed that the Fund had a Common data score of 98.9% (99.6% in 2021/22) and a Scheme Specific data score of 89.91% (94.9% in 2021/22).

While it is disappointing to see a modest reduction in data scores generally, resource was dedicated to improving the data held in member records and the main reason for the slight decline was due an increase in members losing touch with the Fund. Running an address tracing exercise will improve the Common data score and putting our final two employers onto monthly data collection should improve our Scheme Specific data score. However, it is understood that some of the data gaps reflect the way data has been collected historically and does not materially impact member benefits, although, we will continue to seek improvements to these scores going forward.

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

Outlook for 2023/24
The investment outlook is expected to continue to be challenging for the Fund with higher levels of inflation persisting for longer than was initially expected. While this brings an upward pressure on the Fund to meet benefit promises which are linked to inflation, it also presents investment opportunities.

For example, while the ongoing transition by many corporates to a more carbon efficient business model will of necessity be a drag on profits, there may also be opportunities to invest in decarbonisation as well as companies providing solutions to sustainability issues such as climate change. Additionally, lobbying from institutional investors for companies to set meaningful net zero targets is likely to be an ongoing theme. The Fund will be supporting such initiatives through its membership of the Local Authority Pension Funds Forum and by engaging with corporates through its appointed engagement provider, Hermes EOS.

The Council initiative to move to a blended home and office working environment during 2021/22 was designed to improve staff working conditions whilst also improving operational resilience. The Pensions Team has since adopted this model of hybrid working on a permanent basis and continues to focus on meeting service delivery obligations either through home working or in a safe communal working environment.

For our members we will seek to build on the improvements to member experience and satisfaction that were introduced during 2022/23. The retirement modellers and benefit projectors that are available to some members via our member self-service portal, My Pension Online, will be rolled out to the remaining membership as we onboard our final employers on to monthly electronic data capture. Other projects that are designed to advance the Fund’s digital and carbon footprint include the implementation of an enhanced workflow management tool which could see improvements to the processing of retirements as the process moves online.

These projects will be undertaken in tandem with the various regulatory matters that require rectification work, and which remain in scope, such as, the McCloud and Goodwin judgments, as well as getting ready for onboarding to the Pensions Dashboard in the second half of 2024.

Despite the challenges on the horizon, the Fund remains in a healthy financial state and with a stable and experienced team in place to take forward a meaningful agenda for improvement.

Lorna Binnie

Chair of the Pensions Committee
Date: 08 December 2023

Kenneth Lawrie

Chief Executive of Falkirk Council
Date: 08 December 2023

Amanda Templeman

Chief Finance Officer of Falkirk Council
Date: 08 December 2023

Fund Governance

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

Falkirk Council has delegated its pensions function to a Pensions Committee. Various operational and investment activities have been further delegated to the Chief Finance Officer. Fund business is overseen by a Pension Board set up to comply with the requirements of the Public Service Pensions Act 2013.

The governance arrangements for the Fund are explained in its over-arching Governance Policy which can be found on the Fund website. Governance arrangements are reviewed from time to time to ensure they remain relevant and effective.

Annual Governance Statement
The Local Authority Accounts (Scotland) Regulations 2014 require:

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

The Annual Governance Statement describes the governance arrangements and internal controls operated by the Fund during the accounting year.

Governance Compliance Statement
Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2018 requires the Fund to publish and maintain a Governance Compliance Statement, setting out how Fund business is conducted and how stakeholders are represented in the decision-making process. As required by Regulation 55, the Governance Compliance Statement is included in the Annual Accounts.

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

The Committee consists of nine members – six elected members from Falkirk Council and three members representing employer, member, and pensioner interests. The three co-opted members have full voting rights and full access to papers. The Committee meets at a minimum on a quarterly basis with meetings being held mostly in public session. During 2022/23, the Committee held four meetings, all of which were joint meetings with the Pension Board.

Committee Members	
Cllr Lorna Binnie (Chair of Pensions Committee)	Elected Member (Falkirk Council)
Cllr David Aitchison	Elected Member (Falkirk Council)
Cllr Euan Stainbank	Elected Member (Falkirk Council)
Cllr Iain Sinclair	Elected Member (Falkirk Council)
Cllr Jim Flynn	Elected Member (Falkirk Council)
Cllr Robert Spears	Elected Member (Falkirk Council)
Cllr Bryan Quinn	Employer Representative (Clackmannanshire Council)
Mr Andy Douglas	Member Representative (Unison)
Mr Douglas Macnaughtan	Pensioner Representative

The Committee's main responsibilities are:

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

The Committee is supported at its meetings by officers and professional advisers. The External Auditor is usually in attendance at Committee meetings. Attendance is recorded in the meeting Minutes. During 2022/23, most meetings have been in person with the option to join virtually and all meetings are streamed on-line.

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

Pension Board

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

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

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

The Board Chair rotates between the Employer and Member Representatives on an annual basis with the Chair passing from a Member Representative to an Employer Representative at the August 2022 joint meeting of the Pensions Committee and Pensions Board.

The Board Members at 31 March 2023 were as follows:

Board Members	
Mr Tony Caleary	Member Representative (Unison)
Mr Sandy Harrower	Member Representative (Unite)
Mr Raymond Smith	Member Representative (GMB)
Mr David Wilson	Member Representative (Unison)
Mr David Morgan (Chair)	Employer Representative (SEPA)
Mr Ed Morrison	Employer Representative (SCRA)
Mr George Murphy	Employer Representative (Stirling Council)
Ms Nicola Griffin	Employer Representative (Strathcarron Hospice)

Board Changes
Ms Nicola Griffin was appointed to the Board on 19 October 2022 following the departure of Mr Simon Hunt.

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

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

During 2022/23, six meetings were scheduled. The table below gives details of the meeting dates and the individual attendance records of Committee and Board members during the year.

Meetings during 2022/23

Pensions Committee	Appointment Date	25 Aug 2022	22 Sep 2022	01 Dec 2022	16 Mar 2023
L. Binnie	05/05/2022	✓	✓	✓	✓
E. Stainbank	05/05/2022	✓	✓	✓	✓
I. Sinclair	05/05/2022	✓	✓	✓	✓
J. Flynn	05/05/2022	✓	✓	✓	✓
R. Spears	27/10/2022	n/a	n/a	✓	✓
A. Douglas	05/09/2013	x	✓	x	x
B.Quinn	05/05/2022	✓	✓	x	✓
D. Mcnaughtan	02/09/2020	x	✓	✓	✓
D. Aitchison	03/08/2021	x	x	✓	✓
Pension Board					
G. Murphy	05/03/2020	✓	✓	✓	x
E. Morrison	26/06/2015	✓	✓	✓	✓
T. Caleary	17/02/2020	✓	✓	✓	✓
N. Griffin	19/10/2022	n/a	n/a	✓	✓
D. Wilson	17/02/2020	✓	x	✓	✓
S. Harrower	26/06/2015	✓	✓	x	x
R. Smith	18/02/2021	x	x	x	x
D. Morgan	01/12/2021	x	x	✓	✓

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

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

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

During 2022/23, training events were provided virtually and in person covering a wide range of topics from administration to investment and governance. Various members of the Committee and Board attended the following online or in person events:

- General in-house Committee and Board training
- Investments and Pensions Summit hosted by LGC
- Investment Training hosted by Baillie Gifford
- Fundamentals training for members of Pensions Committee and Board provided by Local Government Association
- Governance Conference hosted by Local Government Association

Senior officers continued to attend online events covering investments, Taskforce for Climate-related Financial Disclosures (TCFD) reporting, risk and Pensions Insight.

Training arrangements for 2023/24 are expected to be provided both online and in person.

Conflict of interests

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

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

There is a standing agenda item at each Pensions Committee and Board meeting for members to declare such interests. Any declarations are recorded in the minutes.

Freedom of Information, Accountability and Transparency

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

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

During 2022/23, the Fund responded to 28 Freedom of Information requests (30 in 21/22), the majority of which related to the composition of the Fund's assets.

Documentation

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

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

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

Funding Strategy Update

Overview

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

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

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

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

- the McCloud age discrimination judgment which requires certain scheme protections to be extended to younger members
- the Goodwin sex discrimination case which requires certain survivor benefits to be levelled up
- the Cost Cap where member benefits may require to be increased if the cost of the scheme (excluding investment returns) proves to be markedly less than expected

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

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

In broad terms, the funding strategy requires that there should be at least a 70% chance of an employer being fully funded or better at the end of their time horizon. A review of the Fund's investment strategy was conducted in June 2021 to ensure that the target return and asset mix is consistent with the Fund having the required chance of achieving funding success in the long-term. Following the completion of this review a slight alteration to the allocation of LDI (liability driven investment) and Non-Gilt Debt was made, and the Statement of Investment Principles was updated accordingly.

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

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

The Funding Strategy is set with the intention of delivering a successful outcome for the Fund over the longer term and is designed to be sufficiently robust to withstand short term market swings.

Actuarial Update

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

The most recent formal valuation took place on 31 March 2020 and set the contribution rates to be paid by employers for the three years from 1 April 2021 to 31 March 2024. The valuation work was undertaken during 2020/21 by the Fund Actuary, Hymans Robertson, and reported to the Pensions Committee in March 2021. The findings are summarised in the actuarial statement for 2022/23 which is set out in Appendix 1.

A separate estimate of the funding position is undertaken each year by the Fund actuary. This is based on prescribed assumptions which comply with IAS26 accounting requirements and is not relevant to the Fund's long-term funding strategy. Details of the IAS 26 valuation at 31 March 2023 can be found in Note 19.

Funding Position
The results of the 2020 valuation disclosed a funding level of 94%, meaning that the Fund had 94% of the monies needed to pay benefits that members had accumulated at 31 March 2020. This represented a small improvement on the 2017 funding position. As the table below shows, a more recent funding estimate as at 31 March 2023 indicates that the position has improved from 2020. Whilst an estimated funding level of 132% is very positive, it should be stressed that the funding level is a very volatile metric and that what is important to the Fund is having a strategy which gives it a strong probability of being able to meet its long-term funding commitments. The Fund's ongoing positive cashflow position of c.£14.3m per annum (see page 31) is one indicator of this capability.

	2017 Valuation	2020 Valuation	**2023 Estimate**
Assets	£2,219m	£2,329m	**£3,176m**
Liabilities	£2,403m	£2,481m	**£2,406m**
Funding Surplus / (Deficit)	(£184m)	(£152m)	**£770m**
Funding Level	92%	94%	**132%**

For the avoidance of doubt, the estimated 2023 Fund liability of £2,406m does not appear in the financial statements. This is because the number includes an estimate of future payments to be made from the Fund, whereas the financial statements only take account of the Fund's obligations to pay pensions as at 31 March 2023.

Funding Assumptions
In estimating the March 2023 funding position, the actuary has made judgements about both assets and liabilities.
For assets, the actuary has taken account of cash flows and investment returns from the last valuation date. For liabilities (i.e., the money the Fund needs to hold to meet its benefit commitments) the sum assessed by the actuary is somewhat less than the total of all future benefit payments owing to the fact that the actuary assumes – prudently - that the Fund will achieve a given return on its investments in the future.

Further relevant assumptions made are:

	2020 Valuation	**2023 Estimate**
Assumed future investment return (based on 75% likelihood of success)	3.2%	**5.27%**
Salary increase assumption	2.3%	**2.9%**
Pension increase assumption	1.7%	**2.3%**

The strong investment performance since 31 March 2020 has led to best estimates of investment returns being revised upwards.

The salary increase assumption still has some has significance because wage inflation impacts the final salary benefits of members with pre 2015 rights, although this assumption assumes less importance as time moves on due to members with pre 2015 rights becoming pensioners.

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

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

Changes since the 2020 valuation
The estimated funding results are dependent on a number of factors including the membership details, current financial conditions, the outlook for future financial conditions and demographic trends such as longevity. Changes in each of these factors can have a material impact on the results. The 2020 valuation coincided with a period of extreme volatility and uncertainty in financial markets occasioned by the Covid-19 pandemic. This turbulence has continued with the war in Ukraine and the high inflationary environment persisting in global economies.

The improvement in the past service funding, which has been driven by strong investment performance since 2020, is reflected in the estimated funding level of 132% at 31 March 2023. However, most market commentators agree that there is still considerable uncertainty around the future economic impact of the persistent high inflation in the UK and, as such, readers should view the funding level – a volatile metric at the best of times - with caution and in the context of the wider economic environment.

The change in funding position from a small deficit at 31 March 2020 to an estimated surplus at 31 March 2023 is mainly derived from the improvement in gilt yields. The actuary has indicated that the likelihood of the Fund having sufficient assets to meet benefit payments has improved from 70% at the 2020 valuation to 75% at March 2023. The impact of the improved asset position has, however, been slightly tempered by an increase in the cost of benefit provision which is mainly due to higher long-term inflation expectations.

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

Financial Performance

Overview
This section reports primarily on the Fund's income, expenditure, and cash flows during 2022/23.

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

A summary of the actual and budgeted expenditure for 2022/23, together with the budget for 2023/24, is set out below. More information about Fund costs is given in Note 11 and 11a.

	Budget 22/23	**Actuals 22/23**	**Variance 22/23**	**Budget 23/24**
Benefits administration	£	£	£	£
Employee expenses	654,360	584,855	(69,505)	**819,960**
IT Costs	294,630	277,770	(16,860)	**367,840**
Projects	90,000	24,028	(65,972)	**110,000**
Payslips and postage	94,000	83,262	(10,738)	**47,000**
Other	56,720	74,326	17,606	**56,940**
Benefits administration Total	**1,189,710**	**1,044,241**	**(145,469)**	**1,401,740**
Oversight and governance costs				
Employee expenses	152,990	132,096	(20,894)	**147,410**
Investment advice (inc. external)	280,000	176,920	(103,080)	**280,000**
Infrastructure deals & property advice	331,000	312,379	(18,621)	**414,000**
Actuarial fees	120,000	65,370	(54,630)	**160,000**
Engagement services and voting	80,000	87,370	7,370	**80,000**
Tax advice and legal fees	70,000	40,482	(29,518)	**70,000**
Performance measurement	85,000	105,191	20,191	**120,000**
Other	124,870	106,682	(18,188)	**127,870**
Oversight & governance Total	**1,243,860**	**1,026,490**	**(217,370)**	**1,399,280**
Investment management costs				
Managers fees	5,515,500	3,919,974	(1,595,526)	**4,539,500**
Custodian costs	115,000	114,979	(21)	**150,000**

Aborted deal costs	75,000	68,258	(6,742)	**75,000**
Other	5,000	17,558	12,558	**5,000**
Investment management Total	**5,710,500**	**4,120,769**	**(1,589,731)**	**4,769,500**
Project Forth	**13,963,900**	**478,791**	**(13,485,109)**	**13,432,200**
Pension Fund Total	**22,107,970**	**6,670,291**	**(15,437,679)**	**21,002,720**

The main variances between the budgeted and actual amounts for 2022/23 related to:

Cost category	Under/Over spend	Comments
Benefits administration	Underspend	Savings from staff costs resulting from the time lag between vacancies arising and being filled and projects such as McCloud moving to 2023/24
Oversight and governance	Underspend	Savings from reduction in requirement for external investment advice; less than budgeted recharges from Lothian and lower actuarial fees, 2022/23 not being a valuation year
Investment management	Underspend	Savings from divestment from Baillie Gifford Diversified Growth. Manager fees are set as % of the asset value and due to market movements actuals will always differ from estimates.
Project Forth	Underspend	2022/23 spend relates mostly to levelling up activities in relation to systems (such as Members Self Service, I-Connect) and consultancy work on the project with the remaining budget being rolled forward to 2023/24.

The budget for 2023/24 represents a decrease by £532k from the 2022/23 budget. The main changes are:

Cost category	Increase or Decrease	Comments
Benefits administration	Increase	The budget accounts for pay award and higher system costs, due to the Fund moving to a higher fee band resulting from increased membership.
Oversight and governance	Increase	Increase in recharges from Lothian Pension Fund for Infrastructure, Property monitoring and advice requiring more analytical work
Investment management	Decrease	Changes in the mandates structure following divestment from Baillie Gifford Diversified Growth.

Project Forth	Rolled Forward	Remaining budget is being rolled forward to 2023/24.

Contributions made to the Fund in 2022/23
During 2022/23, employees and employers paid the following contributions:

Employer Name	Employees in £'000	Employers in £'000
Central Scotland Joint Valuation Board	105	363
Clackmannanshire Council	2,727	10,180
Falkirk Council	8,219	31,180
Forth Valley College	568	2,107
Police Scotland	427	1,474
Scottish Fire & Rescue	55	187
Scottish Childrens' Reporter Administration	1,003	3,173
SEPA	3,280	9,831
Stirling Council	5,240	19,440
Total Scheduled Bodies	**21,624**	**77,935**
Active Stirling Trust	179	640
Amey	5	9
Ballikinrain School	32	125
Colleges Scotland	36	135
Cowane's Hospital	7	33
Cromwell European Mgmt Services Ltd	4	-
Dollar Academy Trust	150	500
Falkirk Community Trust	1	1
Forth & Oban Ltd (Falkirk schools)	8	16
Forth & Oban Ltd (Stirling schools)	27	52
Haven Products Limited	4	16
Scottish Autism	444	2,041
Smith Art Gallery	9	31
Strathcarron Hospice	407	1,457
Water Industry Commission	123	437
Total Admitted Bodies	**1,436**	**5,493**
Fund total (see Note 7)	**23,060**	**83,428**

The total pensionable pay of members on which contributions were levied was £373m (£318m for 2021/22). This means that average member contributions were 6.1 % of pay (6.8% in 2021/22) and average employer contributions (exc. deficit repayment) were 22.2% (24.6% for 2021/22). The reasons behind the change to employee and employer contributions is covered in the cashflow section below.

During the year, there were 2 instances of employers failing to remit contributions by the due date (4 in 2021/22). None of these circumstances were deemed material and no interest for late payment was charged.

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

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

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Inflows Contributions and transfers from other pension funds	92,754	98,405	98,558	105,815	115,312
Outflows Benefits and payments to and on account of leavers	78,461	84,381	92,853	90,357	100,968
Net cash flow	**14,293**	**14,024**	**5,705**	**15,458**	**14,344**

The analysis of flows in and out of the Fund show that it remains in a positive cash flow position. The dip in net cash flow in 2020/21 was the result of VisitScotland interests in the Falkirk Fund being transferred to Lothian Pension Fund as part of an LGPS Scotland wide exercise. The Fund returned to the previous level after 2020/21.

Contributions into the Fund increased due to annual salary increases and higher employer rates for the Fund's largest employers being levied in 2022/23 as part of the rates certified at the 2020 valuation. The increase trend in benefit payments reflected the higher aggregate number of pensioners receiving benefits. Despite the positive net cash flow position, the longer-term trend will inevitably be towards a cash neutral or negative position as the ratio of deferred and pensioner members to active members increases.

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

The Fund participated in the exercise during 2022/23 with the results indicating that there may be seven cases where pensioner deaths had not been notified resulting in an overpayment. Work to confirm and recover any overpaid pension is ongoing with the total potential overpayment equalling £5,955. The exercise is expected to be undertaken again in 2024/25.

Conclusions
Fund expenditure was lower than budgeted, largely due to invoiced investment management fees being lower than anticipated. All employers paid their certified pension contributions by 31 March 2023.

Scheme Administration

Overview
This Section reports on the administrative activities undertaken by the Pensions Team during 2022/23. It includes:

- Key Performance Indicators 2022/23
- How the Administration function is organised
- Value for Money Statement
- Membership Information
- Administration Activity and Performance
- Communications
- Administration Outlook for 2023/24

Key Performance Indicators 2022/23
The aim is to provide an efficient and cost-effective administration service that meets stakeholders' needs. Performance is measured through a series of indicators:

Key Performance indicators 2022/23	Target	Actuals
Audit of Annual Report and Accounts 2022/23	Unqualified	Unqualified
Benefit Statements issued by 31 August 2022	100%	94.6%
Contributions received within statutory deadline	100%	99.4%
Retirement lump sums paid within 15 days	90%	83%
Monthly Pensioner Payroll Paid on time	100%	100%
Pensions Increase processed with April Pension	Meet Target	Met Target
P60 documents issued by end May	Meet Target	Met Target

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

Staffing
The team has 18.95 budgeted full-time equivalent posts (including vacancies) and is headed by the Pensions Manager. In addition to benefits administration, staff members undertake governance, accounting, and investment related activities. As of 31 March 2023, the Team was made up of:

Pension Manager (1FTE)				
Accounting Team	Maintenance Team 1	Maintenance Team 2	Projects Team	Payments Team
1.37 FTE	4.0 FTE	4.81 FTE	2 FTE	5.31 FTE

Record Maintenance
Membership data and scheme records are maintained by the internal Pensions Team using the industry standard computerised pensions administration system (Altair) which is used by all LGPS Funds in Scotland. The system is reviewed regularly by Heywood, the software vendor, and upgrades are provided regularly to ensure system compliance and improvement. Upgrades are subject to peer testing by a user group before being deployed.

All staff are required to complete online Data Protection training annually as part of the Fund's commitment to ensuring that member data is held securely, and that confidentiality is respected. No data security incidents took place during 2022/23.

During the year, further work to digitise member records was undertaken, thereby increasing the Pension Team's capacity for hybrid working between home and office. An online member portal which gives members access to their pension records was also successfully launched.

Systems
The Pension Team use the IT platforms and infrastructure provided by the ICT section of the Council.

All staff have access to laptops, essential hardware and operating systems.

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

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

The Fund has an ongoing project to enable constituent employers to make monthly electronic data submissions using a middleware application known as i-Connect. This is to improve the timeliness, completeness and quality of data. By 31 March 2023, all but two of the Fund employers were live on i-Connect. The final phase of the project involves Falkirk and Stirling Councils going live and this is expected to be completed during Q2 of 2023/24.

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

The Fund strives to deliver value for money by monitoring:

- costs against budget (see page 28)
- year on year total and unit costs (see table on the next page)
- performance statistics (see page 32)
- success in completing key activities (see page 40)

- investment cost through benchmarking (see page 35)

The Fund's total unit costs per member in 2022/23, split across the cost categories of investment management, administration and oversight and governance (see Note 11) were as follows:

	2018/19	2019/20	2020/21	2021/22	2022/23
Investment management expenses					
Total cost in (£000)	11,290	14,546*	17,148*	16,914*	18,465*
Total membership numbers	34,635	35,396	35,929	36,978	38,563
Sub cost per member £	**325.97**	**410.95**	**477.27**	**457.41**	**478.83**
Administration costs					
Total cost in (£000)	776	919	960	984	1,260
Total membership numbers	34,635	35,396	35,929	36,978	38,563
Sub cost per member £	**22.41**	**25.96**	**26.72**	**26.61**	**32.67**
Oversight and governance costs					
Total cost in (£000)	641	939	1,035	1,014	1,026
Total membership numbers	34,635	35,396	35,929	36,978	38,563
Sub cost per member £	**18.51**	**26.53**	**28.81**	**27.42**	**26.61**
Total cost per member £	**366.89**	**463.44**	**532.80**	**511.44**	**538.11**

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

Comment on Costs

Administration costs have increased from 2021/22 by £276k, increasing cost per member by 23%. The reason for increase has been an accelerated programme of improvement to the administration system (Members' Self Service, Insights and Workflow) ahead of the possible merger with Lothian Pension Fund. The Fund worked alongside Lothian Pension Fund to align its data and processes.

Oversight and governance costs remained broadly in line with the previous year. Increase in membership brought the cost per member down. These costs cover collaboration with Lothian Pension Fund being expanded to include deal sourcing and monitoring for Infrastructure, Private Debt and Property mandates. This reflects a switch from more expensive fund of funds structures to sourcing investments in conjunction with Lothian. This switch results in lower investment fees but higher oversight and governance fees due to Lothian for their research and due diligence work.

Investment management costs have increased by £1.6m from the 2021/22 level. The increase is mainly attributable to transaction costs arising from foreign market taxes in relation to compulsory corporate action in one of the externally managed portfolios. Market associated costs relate to share registration and re-registration fees, local market documentation expenses and costs associated with physical attendance at meetings. Other elements of investment management costs are down from the previous year. A further breakdown can be found in Note 11a.

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

Participation in the Code is voluntary; however, the expectation is that managers will participate. Participation is expected to be a condition of any new manager appointments. For 2022/23, the Fund has continued to use CTI templates to collect cost data about its pooled investments (e.g. Baillie Gifford Bonds, Legal and General's Passive Equity Funds, Pictet).

In line with last year, the Fund has, where possible, disclosed the investment management costs reported by managers through the Cost Transparency Initiative (CTI). These costs are different to the manager fees for which the Fund is invoiced and include costs charged to capital by managers.

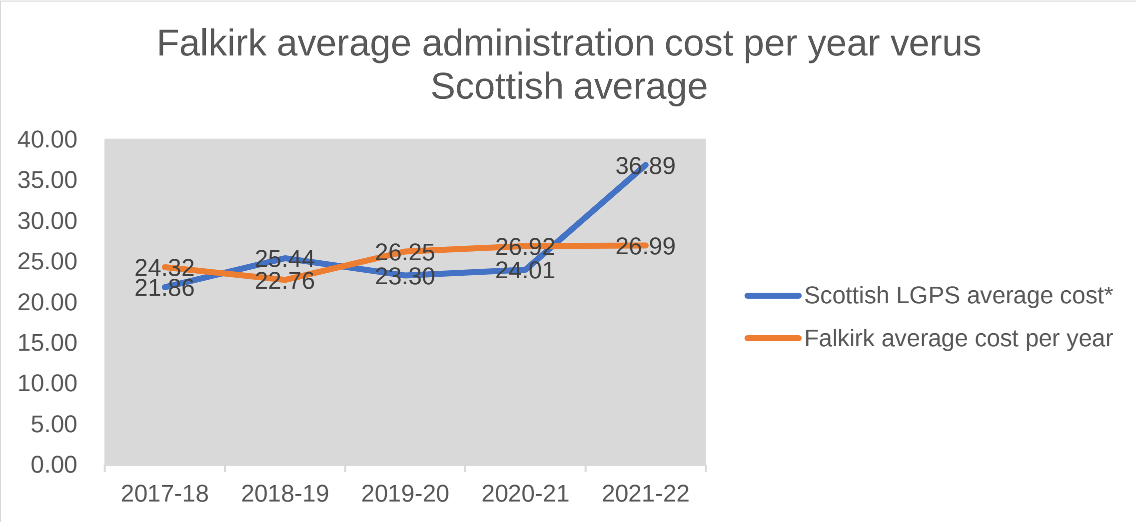
Investment Cost Benchmarking
In 2022/23, the Fund again participated in a cost benchmarking exercise undertaken by specialist firm CEM. CEM is an independent global benchmarking company with a database of 525 global pension funds, representing $15 trillion in assets. Participation allows Fund investment costs to be compared with a range of LGPS and non-LGPS peer comparators. The work is done one year in arrears, so the information reported below relates to the Fund's investment cost data for 2021/22. The Fund returns were compared with 16 global peer funds ranging from £2.1bn to £4.5bn.

The results showed the Fund's costs as 56.1 basis points of invested assets, which was below the average benchmark cost of 68.6 bps for similarly sized funds.

Over the past 8-year period the costs had fallen from 73.6 bps in 2014/15 to 56.1 bps in 2021/22 at a time of rising asset valuations. The 8-year net total return of 8.7% was close to the CEM LGPS median of 8.8%.

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

Administration Cost Benchmarking
The chart on the next page shows the Fund's average administration costs per year in comparison with the overall Scottish LGPS average calculated from data for 10 out of 11 funds. The Fund's costs of £26.99 for 2021/22 are below the Scottish average and below Funds of similar size.



Source: CIPFA Scottish Directors of Finance benchmarking (Scottish LGPS calculated on data returned from 10 out of 11 LGPS funds)

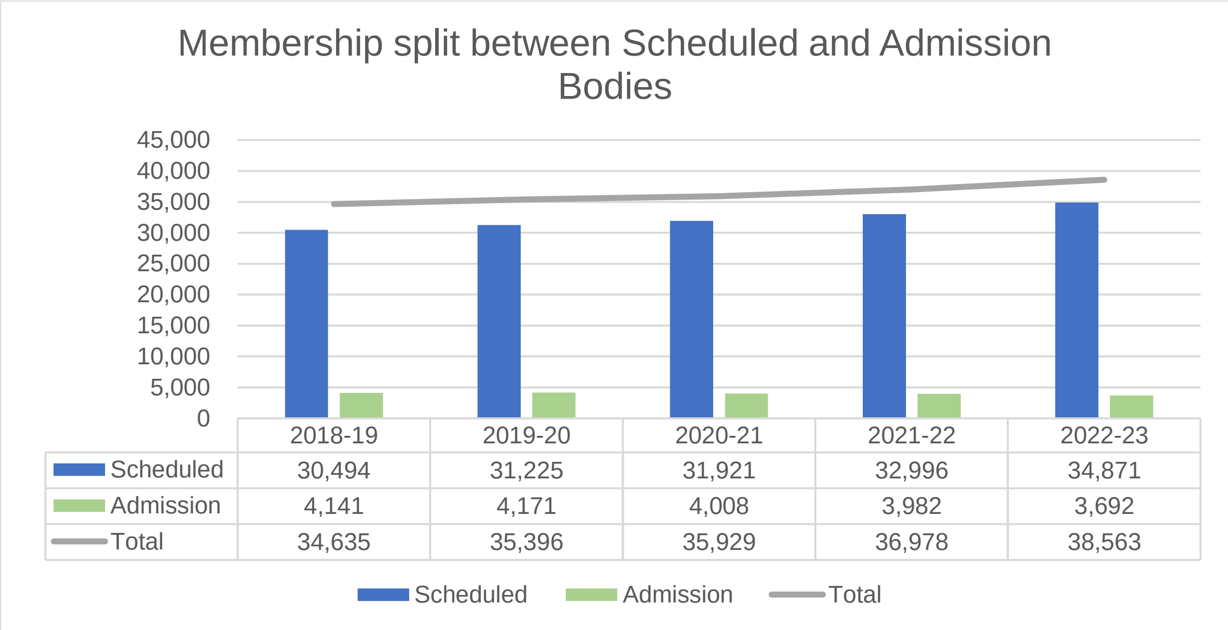
The administration costs remained broadly in line from 2019/20 but will increase for 2022/23 due to acceleration of improvements to the Fund's administration system. For the CIPFA exercise, costs are calculated on a different basis than costs shown in the Accounts on page 35.

The CIPFA Scottish Directors of Finance Performance Indicators Report 2021/22 (n.b. most recent available) reveals that similarly sized Scottish LGPS Funds have an administration cost on average of around £33.27 per member.

Membership Information

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

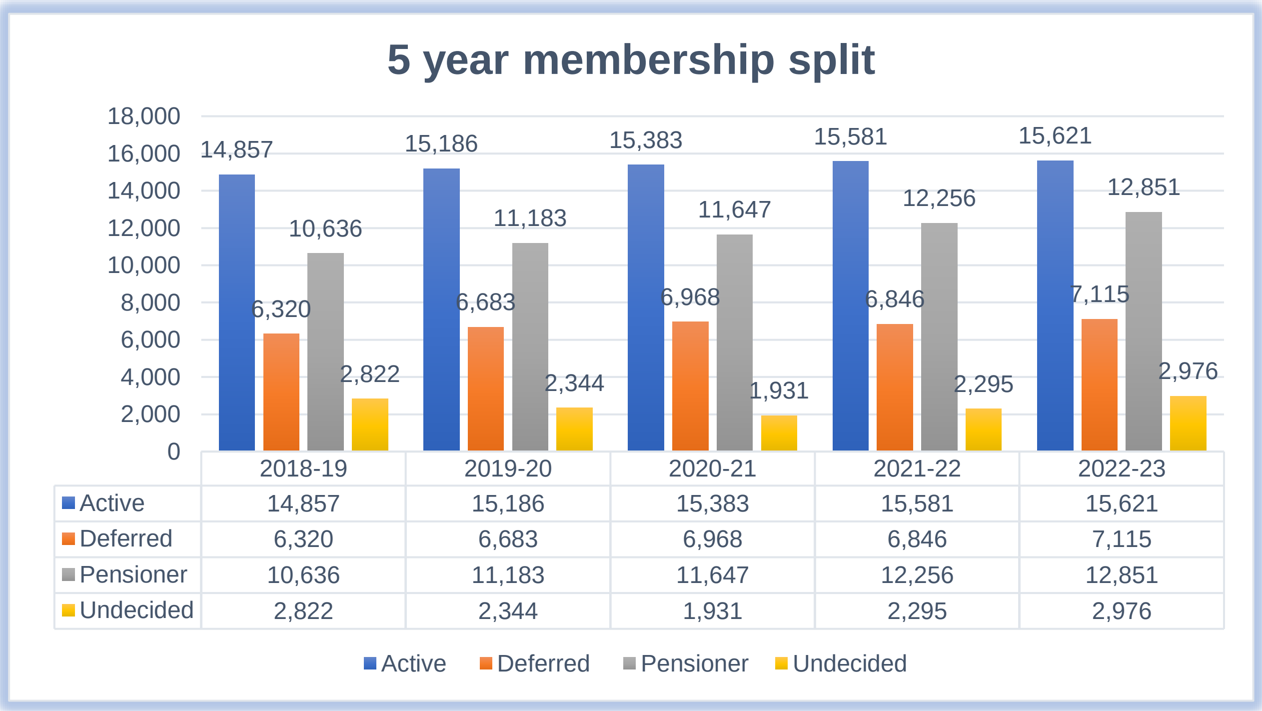
The first chart in this section, on the next page shows how total Fund membership (active, deferred, pensioner and undecided members) has changed over the past 5 years split between Scheduled and Admission Bodies. It shows that total membership over the past 4 years has increased at an average of around 2.7% p.a. It also indicates that 90% of scheme members in the Fund work for Scheduled Bodies.



	2018-19	2019-20	2020-21	2021-22	2022-23
Scheduled	30,494	31,225	31,921	32,996	34,871
Admission	4,141	4,171	4,008	3,982	3,692
Total	34,635	35,396	35,929	36,978	38,563

Source: Falkirk Council Pension Fund

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



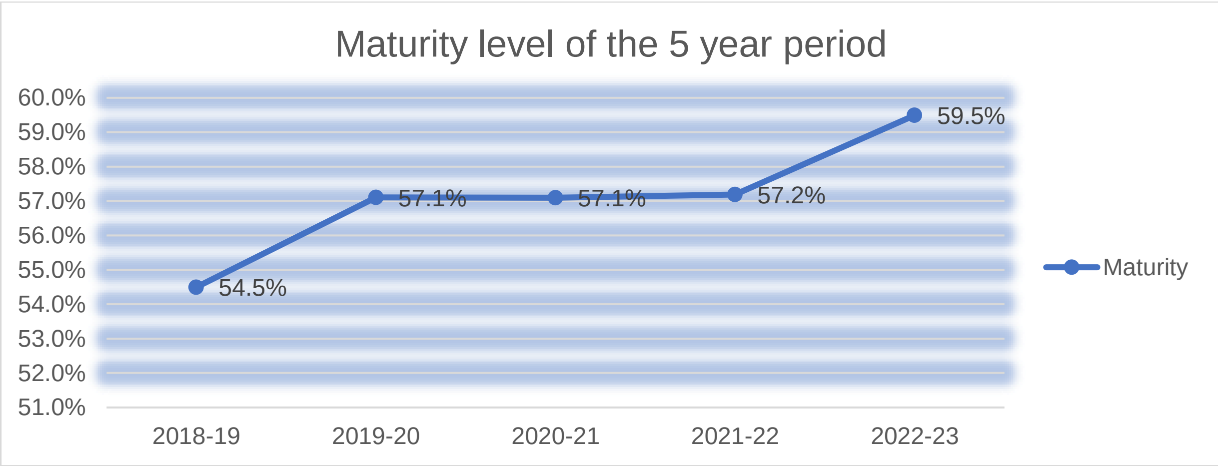
	2018-19	2019-20	2020-21	2021-22	2022-23
Active	14,857	15,186	15,383	15,581	15,621
Deferred	6,320	6,683	6,968	6,846	7,115
Pensioner	10,636	11,183	11,647	12,256	12,851
Undecided	2,822	2,344	1,931	2,295	2,976

Source: Falkirk Council Pension Fund

The chart shows that as of 31 March 2023 there was an increase across all membership groups with the largest noted in undecided leavers. The increase in undecided leavers is due to the alignment of data between the Fund and the Fund's two largest employers ahead of implementation of monthly data collection through i-Connect.

The number of pensioner and deferred members has been increasing steadily over the past 5 years in line with the maturing life cycle of the Fund.

A metric helpful in determining the degree of Fund maturity is the ratio of non-active members to total members. Should the metric have shown that the Fund was maturing rapidly, this would be a signal to tilt investments to a more focused income generation strategy. The chart below, shows an increase in the maturity level from the previous year, after being flat over the previous three years. However, no specific investment action is required at this stage. The maturity of the Fund is also considered by the actuary when conducting triennial valuations.



Source: Falkirk Council Pension Fund

Analysis of Scheduled and Admission Bodies
The number of employers with a continuing interest in the Fund as at 31 March 2023 is as follows:

Type of Employer	Open	Closed to new members	Total
Scheduled Bodies	9	0	**9**
Admitted Bodies	9	5	**14**
Total	**18**	**5**	**23**

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

Analysis of New Pensioners during 2022/23

Retirement type	
Late retirement	120
Normal	551
Flexible retirement	48
Efficiency	18
Redundancy	1
Ill health	82
Total	**820**

n.b. flexible retirement occurs when an individual retires from their post but continues working with the same employer in a materially reduced capacity.

Administration Activity and Performance

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

This encompasses a broad range of activities, including:

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

Project work undertaken in 2022/23 included:

- the ongoing roll out of i-Connect
- data cleansing
- record digitisation
- implementing the online member portal, My Pension Online, which gives members online access to their pension records
- completion of the GMP reconciliation
- work relating to a possible merger with the Lothian Pension Fund

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

Performance Information
Performance Indicator – Volume and Completion Rate

	New member enrolment	Estimate requests	Retirements from active status	Other transactions
Cases in scope				
2018/19	787	649	428	13,406
2019/20	1,378	618	364	14,007
2020/21	1,236	607	357	11,640
2021/22	1,898	1036	451	13,566
2022/23	3,046	1021	505	19,987
Cases completed by year end				
2018/19	720	598	382	11,898
2019/20	1,361	578	312	12,788
2020/21	1,187	528	316	10,456
2021/22	1,870	801	403	12,104
2022/23	3,039	842	452	17,757
Cases due at year end				
2018/19	67	51	46	1,508
2019/20	17	40	52	1,219
2020/21	49	79	41	1,184
2021/22	28	235	48	1,462
2022/23	7	179	53	2,230
Completion rate				
2018/19	91%	92%	89%	89%
2019/20	99%	93%	86%	91%
2020/21	96%	87%	88%	90%
2021/22	98%	77%	89%	89%
2022/23	99%	82%	89%	89%

Performance Indicator – Timescales

	New member enrolment	Estimate requests	Retirements from active status	Other transactions
KPI	**21 days of being advised**	**1 month**	**15 days from all information**	**1 month**
Cases in scope				
2018/19	720	598	382	11,898

2019/20	1,361	578	312	12,788
2020/21	1,187	528	316	10,456
2021/22	1,870	801	403	12,104
2022/23	3,039	842	452	17,757
Cases meeting target				
2018/19	448	326	358	8,590
2019/20	721	380	295	9,806
2020/21	870	336	302	9,157
2021/22	1,250	471	375	10,692
2022/23	2,562	523	374	15,327
Completion rate				
2018/19	62%	55%	94%	72%
2019/20	52%	66%	95%	77%
2020/21	73%	64%	96%	88%
2021/22	67%	58%	93%	88%
2022/23	84%	62%	83%	86%

"Other transactions" (see right hand column above) covers an array of member related activities such as letters, transfer requests, changes of address, nominations, etc. The significant increase in other transactions in 2022/23 is attributable to the introduction of the Altair Workflow module and its auto task generation capability.

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

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

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

Members whose complaints are not satisfied through IDRP may ultimately appeal to the Pensions Ombudsman. The Money and Pensions Service, formerly the Pensions Advisory Service, may be contacted by the member for guidance at any point in the appeal process.

Contact information for the Ombudsman and the Money and Pensions Service are as follows:

Money Helper which is provided by the Money and Pensions Service	0800 011 83797	Money Helper
Pensions Ombudsman	0800 917 4487	The Pensions Ombudsman 30 Years Trusted • Fair • Impartial Since 1991

Communications
Members and employers can obtain information about the scheme by contacting the Pensions Team in writing, by telephone or by e-mail. Contact details can be found on page 6.

Recent developments mean that pensioners will receive a paper pension advice slip in the months of April and May to publicise the effect of the April pensions increase. For other months, pensioners have the option of viewing their slip online or receiving paper.

The Fund's website - www.falkirkpensionfund.org - contains guides and information about various aspects of the LGPS and the Fund. Topical items are uploaded to the News Section.

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

Administration Outlook for 2023/24
In the year ahead, the Administration expect to undertake developments in the following areas:

- McCloud and Goodwin remedies
- Roll out of i-Connect
- Implementation of Workflow
- Preparation for the 2023 Fund Valuation

Investment Market Review

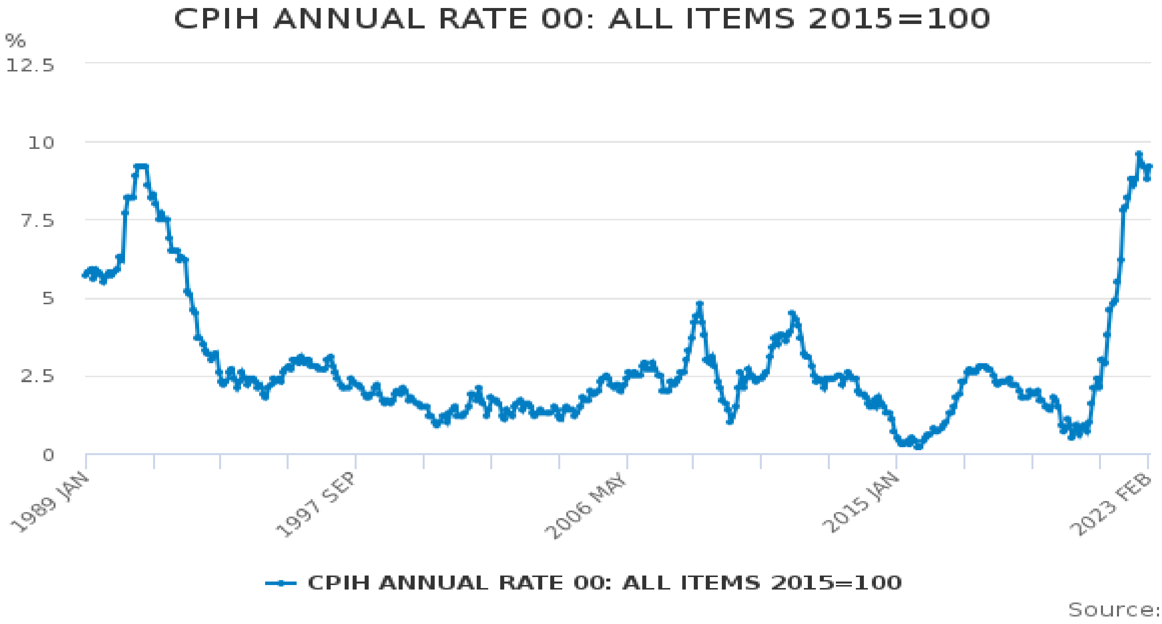
For the 12 months to 31 March 2023, global equities, as measured by the MSCI ACWI index, returned -1.4% in sterling terms (source: MSCI). However, the weaker pound masked a more pronounced decline of -7.4% in US dollar terms (source: MSCI). It was a year almost as extraordinary as 2020, when Covid emerged, and returns for most asset classes were curtailed by the challenging conditions.

Soaring inflation and central banks' policy responses dominated the backdrop for financial markets. The mounting pace of inflation was worsened by the supply shock brought about by the war in Ukraine, with UK consumer price inflation reaching 40-year highs. The reaction from most major central banks was to aggressively tighten monetary policy, marking a dramatic shift from the extremely low interest rates that had been in place since the financial crisis of 2008. This is an environment that many had become unaccustomed to and the unfamiliar conditions exposed frailties in the financial system, contributing in some part to the LDI crisis in the UK and the failure of two large US banks.

Government bond prices fell over the year, due to rising base rates and higher inflation, with the political crisis in the UK causing forced sales of long-dated gilts by some pension funds. 10-year gilt yields rose from 1.61% to 3.49% (reaching as high as 4.6%), giving an annual return of -10.9%. Although corporate bond credit spreads (the difference in yields between bonds of differing quality) widened over the year, it was the sharp rise in underlying government bond yields that caused most of the damage, with sterling investment grade credit returning -10.2% over the year. Commercial real estate returns were also strained by falling capital values as property owners, many of which are highly leveraged, contended with rising borrowing costs. However, some of the most eye-catching falls were among 'growth' stocks where valuations were severely marked down as sentiment for this part of the market soured.

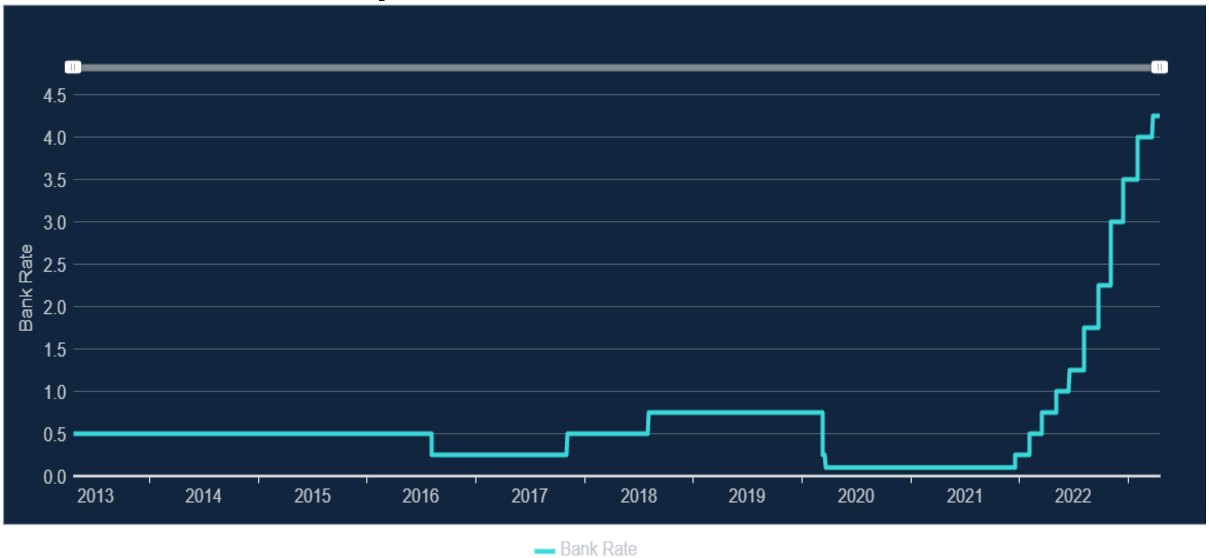
Inflation's influence over investment markets appears set to continue with disinflation to pre-pandemic levels likely to take some time. However, there is cause to believe that inflation has already peaked amid moderating commodity prices and the cooling effect of monetary policy. With that, central banks appear to be nearing the peak of this tightening cycle which may signal a more favourable backdrop ahead for asset valuations. However, risk remains around whether inflation proves to be 'stickier' than hoped. Expectations for corporate earnings have held up well to date, though those forecasts may prove overly optimistic as economic growth deteriorates in the face of the tight monetary policy, declining real wages and heightened geopolitical tensions. Meanwhile, fiscal policy is handicapped by high debt burdens and costlier borrowing, as demonstrated by the rapid unwinding of the Truss government's plans. More positively, the recent reversal of China's 'zero-Covid' policy provides a welcome boost for growth. With several meaningful macroeconomic and geopolitical challenges to be navigated, it is hard to imagine that there will not be further significant financial market volatility in the coming years.

The chart below shows movement of Consumer Price Index including owners occupiers' housing costs (CPIH).



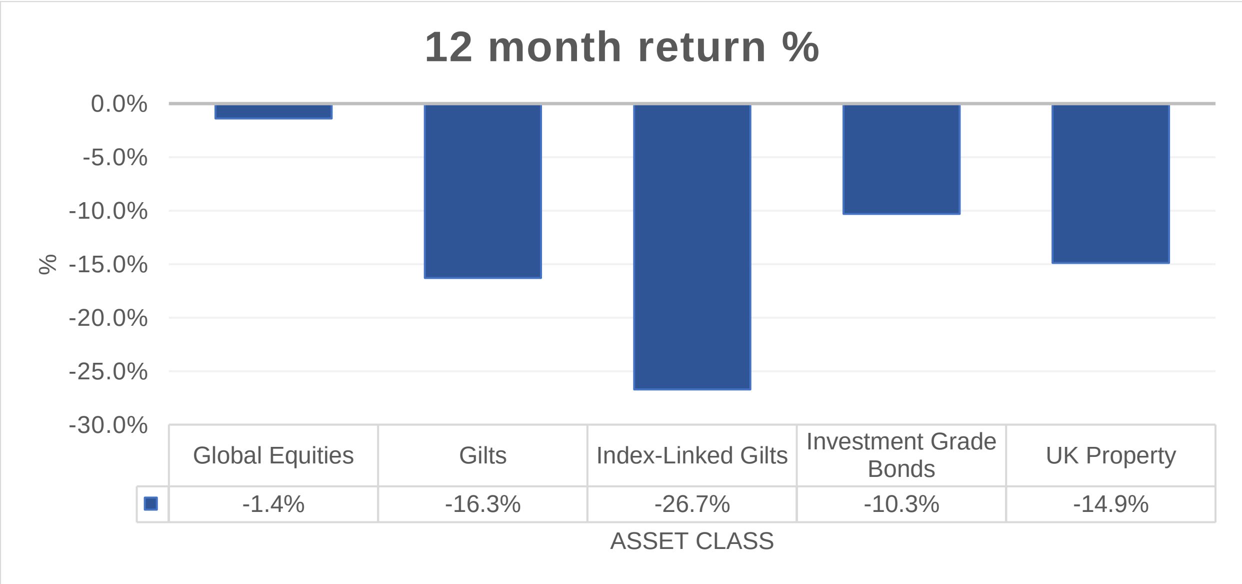
Source:
https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23

Official Bank Rate History



Source*:* https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp

The graph below shows index returns over 12 months to 31 March 2023 for a range of asset classes.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation (MSCI ACWI, FTSE Actuaries Gilts >15 Yrs, FTSE UK Govs Index Linked >15 Yrs, iBoxx £ Non-Gilts, IPD Balanced Monthly & Quarterly Property Index – all GBP total return)

Investment Policy

Overview
Investment policy covers a broad range of topics including the Fund's investment management arrangements; its investment strategy, principles and beliefs; and its approach to responsible investment encompassing environmental, social and corporate governance matters (commonly referred to as "ESG").

This section of the Annual Report outlines the following:
- Statement of Investment Principles
- Investment Management Arrangements
- Investment Strategy
- Policy Groups (i.e. high level asset allocation)
- Comparison of Actual and Strategic Asset Allocation
- Investment Mandates and Managers

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

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

It also outlines the governance arrangements and high-level principles which determine and guide investment policy. The SIP formally records that the key investment objectives of the Fund are:

- to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment, and
- to achieve a return on Fund assets which is sufficient over the long-term to meet the funding objectives agreed in the Funding Strategy Statement

The SIP explains the Fund's investment strategy and details how, by investing in a broad range of asset classes and by balancing risk and return, the Fund intends to achieve the necessary return on its assets. The SIP documents that both Fund and Manager performance are measured by an independent performance specialist against agreed benchmarks. The SIP also describes the approach to more operational issues such as stock lending, the use of derivatives and currency risk as well as the extent to which the Fund complies with the CIPFA Principles for Investment Decision Making.

The current version of the SIP was largely approved by the Pensions Committee in June 2021 following a strategic review with the Lothian and Fife Pension Funds and supported by the Fund actuary, Hymans Robertson. Following external advice, some revisions were approved at the Pensions Committee of August 2022.

The most material change to the SIP was in Appendix C which changes the Fund's statement of compliance with the UK Stewardship Code to a Stewardship Statement. This is because the Financial Reporting Council (FRC) has amended its Stewardship Code, which is a voluntary code. It now requires an application to become a signatory rather than a statement of compliance.

Investment Management Arrangements
The investment of Fund monies is undertaken by a range of external third-party investment managers. Safeguarding of Fund assets is managed by the Custodian, Northern Trust. Performance Measurement is carried out by Portfolio Evaluation, although during 2023/24, this is being switched to Northern Trust due to the wind up of Portfolio Evaluation's operations.

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

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

In addition to their participation in the JISP, LPFI act as the investment manager for several of the Fund's mandates. They also provide the Fund with an advisory and arranging service for investments in real estate, infrastructure, and private markets generally. LPFI is a wholly owned subsidiary of Lothian Pension Fund and is authorised and regulated by the Financial Conduct Authority to carry out activities, including advising, arranging, and managing investments.

All mandates – including those managed by LPFI - are underpinned by Investment Management Agreements or similar legal instruments to ensure that Fund monies are invested in compliance with the terms of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010.

The in-house team is responsible for co-ordinating the investment management arrangements including quarterly reconciliations between manager, custodian, and performance specialists. This includes various equity and bond mandates as well as real estate and infrastructure. Asset valuations are available to the Pensions Team via an on-line portal provided by Northern Trust, the Fund's Custodian.

At the start of 2022/23, the Fund sold its holdings in the Baillie Gifford Diversified Growth Fund. During the year it made several allocations to a passive UK Index Linked Gilts vehicle, managed by LPFI, as well as broadening the range of private market managers used in the infrastructure and private debt space. A global low volatility equity vehicle which had been managed on an interim care and maintenance basis by Legal and General was also placed under the management of LPFI.

Investment Strategy

The main objective of the Investment Strategy is to achieve a return on Fund assets which allows it to meet its long-term benefit commitments.

The strategy is weighted strongly towards equities and other return seeking assets. This is consistent with maintaining stable employer contributions; having a funding target of 100%; and at least a 70% chance of achieving the funding target by 2040.

The current investment strategy was set by the Pensions Committee in June 2021 with proper advice having been taken from Fund advisers and the Chief Finance Officer.

The review involved the consideration of various funding scenarios using the Hymans Robertson asset/liability modelling tool. The conclusion was that given the negative real returns on gilts and the ongoing uncertainty as to when interest rates would normalise, it was appropriate to continue with a strategy favouring equities with allocations to real assets and fixed income in view of their defensive and inflation matching characteristics. It was recognised that the economic challenges of the Covid pandemic (subsequently compounded by the war in Ukraine) was likely to generate both inflation and an upward pressure on interest rates. Hence, a prudent approach was deemed appropriate.

A minor change was made to the Statement of Investment Principles in 2022 to document that the Fund's preference for its equity holdings was for lower risk stocks. Examples of this having been put into practice are the Global Low Volatility Equity vehicle managed by LPFI and the UK Equity mandate managed in a "value" style by Schroder. In the current climate where there has been a rapid increase in interest rates, the valuation of such equities has been more stable than those exhibited by higher risk "growth" stocks where the impact of the higher rates on the discounting of projected cash flows has translated into lower market valuations.

Under the Fund's overarching strategy, assets are categorised into one of five Policy Groups, with each having its own return target. The Policy Groups contain assets with similar risk and return characteristics, but which are not completely correlated with one another. Policy Groups are the key determinants of risk and return for the Fund and are the main focus of attention for the Committee. The blended return from the five policy groups is intended to allow the funding objective to be met.

The Committee and JISP, supported by LPFI and the in-house team, review investment issues on an ongoing and quarterly basis. An in-depth review of investment strategy will take place later this year as the results of the 2023 Fund Valuation unfold.

Policy Groups
The Pensions Committee is responsible for setting the allocation to the five Policy Groups (Equities, Other Real Assets, Non-Gilt Debt, LDI and Cash). The Chief Finance Officer is responsible for deciding the allocation of capital to any subordinate asset classes within each of the Policy Groups and ultimately to the investment managers.

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

Policy group	Strategic allocation	Acceptable range	Long-term expected return
Equities	60%	50% - 70%	Gilts + 3.5%
Other Real Assets	20%	10% - 30%	Gilts + 2.5%
Non-Gilt Debt	10%	0% - 20%	Gilts + 1.0%
LDI	10%	0% - 20%	Gilts + 0.0%
Cash	0%	0% - 15%	0.0%
Totals	**100%**		**Gilts + 2.8%**

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

Other Real Assets includes Infrastructure, Timberland and Property. These assets are designed to deliver stable, lower risk returns throughout the highs and lows of the economic cycle, and invariably with some inflation linkage. Investors should expect to be compensated with an illiquidity premium due to the nature of the assets.

Non-Gilt Debt includes Corporate Bonds and direct lending in private markets (i.e. Private Debt). These assets are held for their defensive qualities, including their lower volatility and stable income generation characteristics. Private Debt commitments are only made with managers who have a track record of investing in companies where there are strong covenants and minimal default risk. Invariably, these are restricted to the senior debt tranche of a company's capital structure.

LDI relates to debt instruments issued by the UK Government. They are held by the Fund for their liability matching qualities (n.b. long dated index linked gilts can be purchased to closely match the future expected cash outflows of the Fund). Increasing the allocation to this Policy Group reduces funding volatility, however, if the Fund was invested solely in Gilts, the expected return would be significantly less than the Fund's target return and employer contribution rates would be correspondingly higher.

The inexorable rise in bond yields, which started in 2021/22, has prompted the Fund to make further allocations to the LDI policy group, taking advantage of the lower prices and improved returns, as well as reducing funding risk.

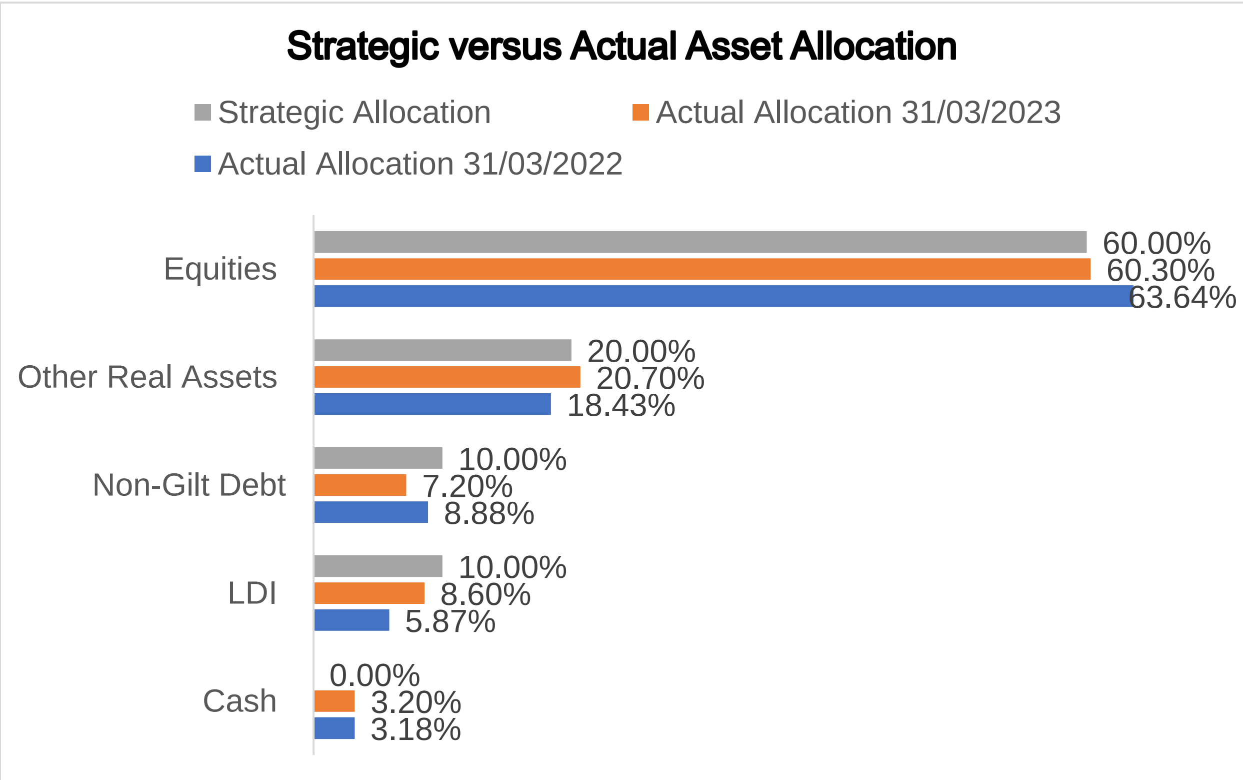
The LDI policy group does not involve the use of derivatives or leverage to enhance returns. Such LDI labelled strategies created difficulties for some pension funds in Autumn 2022 when financial markets reacted adversely to the mini-budget announcements of the Truss administration and caused a spike in yields.

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

To avoid unnecessary and costly re-balancing, the Committee has agreed that the level of assets held in each Policy Group may sit within a particular range. Asset allocation with these tolerances is monitored closely by the JISP.

Comparison of Actual and Strategic Asset Allocation
A comparison of the Fund's actual Policy Group holdings versus the strategic weightings is made every quarter by the JISP and reported to the Pensions Committee and Pension Board.

The positioning as at 31 March 2023 is shown in the following table:



Source: Falkirk Council Pension Fund

The chart shows that the actual allocation is at variance with the strategic allocation. This is not unusual given the way asset prices move around within markets; a reluctance to incur costs by trading unnecessarily; and the need for the Fund to adopt tactical positions in the face of economic conditions.

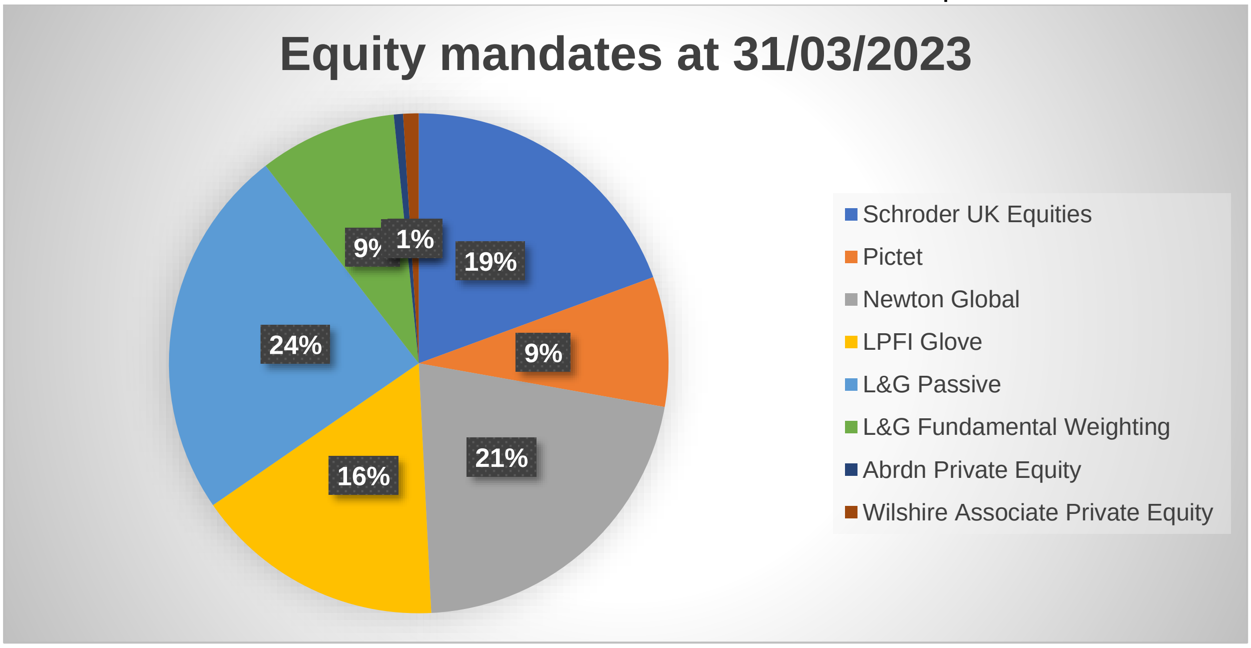
As at 31 March 2023, the actual allocation to each Policy Group was within the acceptable range set by the current strategy. Equities, Real Assets and LDI have moved closer to their strategic allocation, whilst the allocation to Non-Gilt debt has moved further away. Cash has remained at a level similar to 31 March 2022.

The most significant shift has been the reduction in equities and the increase in LDI. The fall in equity allocation is due to lower market valuations generally in the face of structural headwinds and the Fund tactically withdrawing around £60m from its managers. Despite a rising interest rate environment in early 2023, markets remained strong and the Fund used the opportunity to take profits. The improvement in bond yields and corresponding lower bond pricing made a switch into Gilts a natural transition.

Overall, the JISP and the Pensions Committee are content with the positioning of the Fund, recognising that movement towards the strategic allocation has to take account of market conditions and potential trading costs.

Investment Mandates and Managers
As at 31 March 2023, the Fund's allocation of assets to Policy Groups and investment mandates was as shown in the undernoted pie charts:

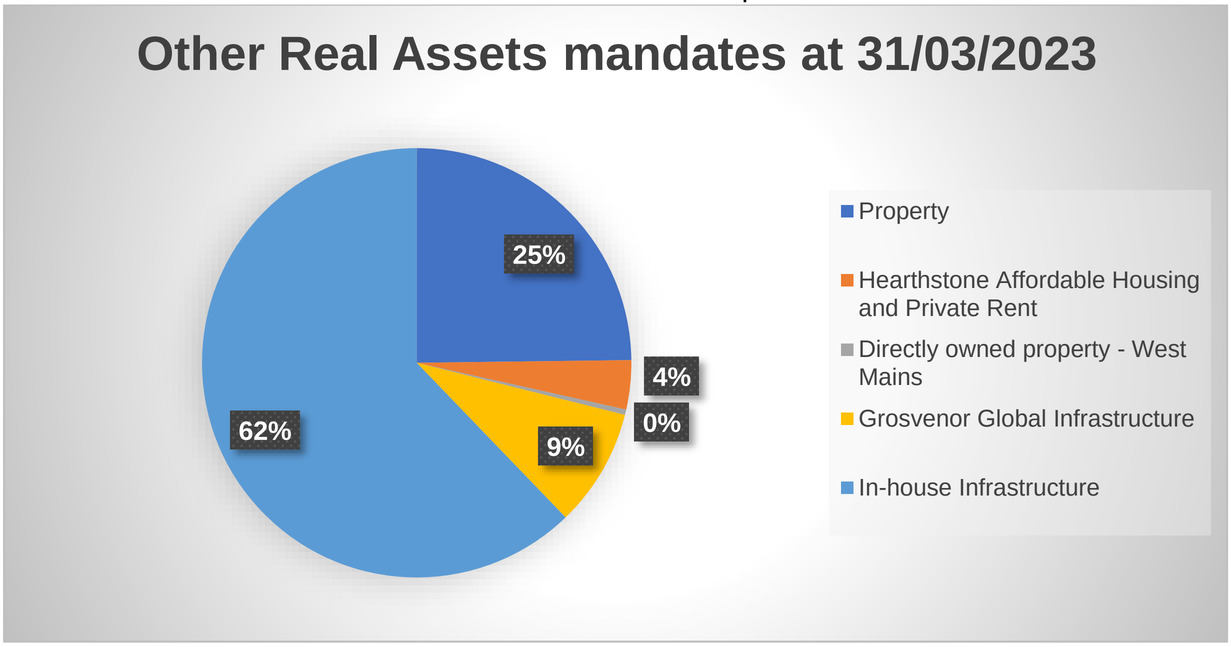
Equities
At 31 March 2023, 60.3% of the Fund's assets were invested in Equities as follows:



Source: Falkirk Council Pension Fund

Other Real Assets

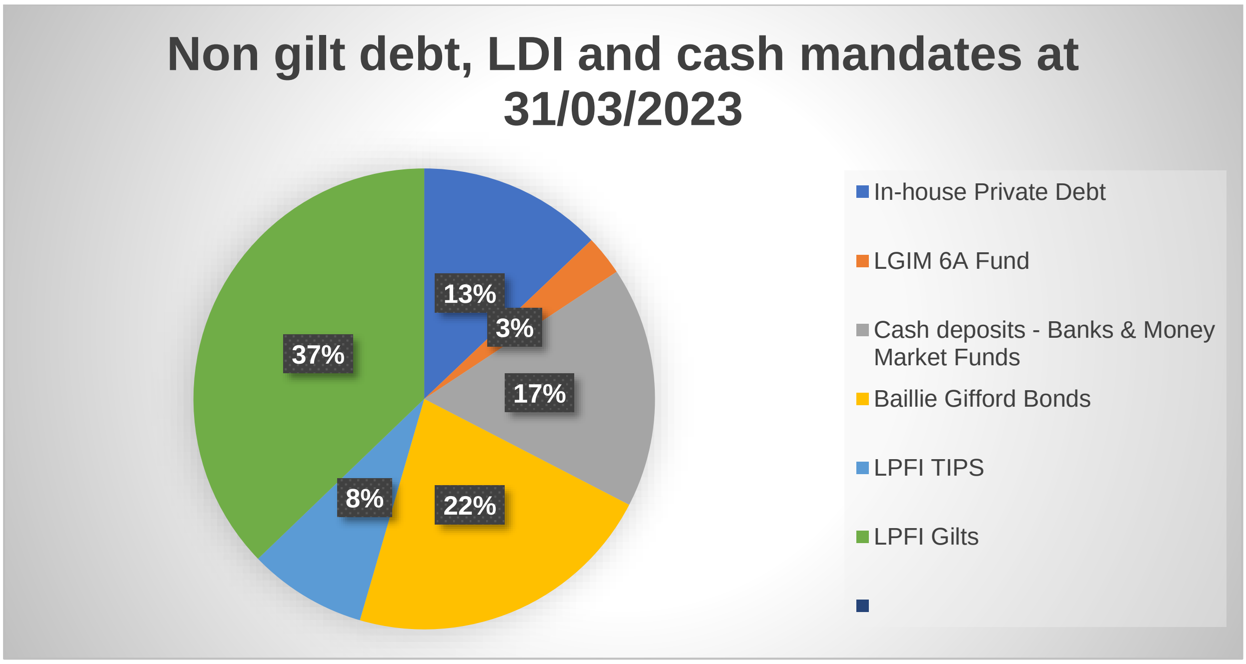
Other Real Assets formed 20.7% of the Fund and were split as shown below:



Source: Falkirk Council Pension Fund

Non-Gilt Debt, LDI and Cash

The remaining Fund assets were allocated between Non-Gilt debt (7.2%), LDI (8.6%) and Cash (3.2%), managed as follows:



Source: Falkirk Council Pension Fund

Investment Performance

This section of the Annual Report deals with the Investment Performance of the Fund during 2022/23 and over longer time periods. The initial part deals with the returns at a whole Fund level and the latter part looks at how returns have been delivered by individual elements of the portfolio, including policy group and mandate.

Fund Investment Performance

During the year, the Fund achieved a return of 0.8% outperforming its composite benchmark of –12.0% by 12.8%. Longer term performance (c. 20 years) is 7.6% p.a. - higher than the long-term benchmark return of 6.4% and comfortably higher than the gilts plus 2.8% return target of the current investment strategy.

The return of 0.8% reflects the economic headwinds faced by the global investor in 2022/23, including burgeoning inflation, rising interest rates, energy costs, supply chain disruption, China/US tensions, and last, but very much not least, the conflict in Ukraine. In the UK, there was political uncertainty and market disruption as the Johnson and Truss governments gave way to the Sunak administration. In the face of these challenges, the Fund benefitted from its investments in Infrastructure with its reliable cash flows from regulated sections of the economy. Although the return from equities was modest, it was still positive and validated the Fund's preference for lower risk, income generating assets rather than those with a "Growth" tilt.

Longer term returns over 3, 5 and 10 years and since inception (2001) show a strong picture with the Fund now beating its benchmark over all time periods.

The detailed returns over all time periods are as set out in the table below:

Returns	1 year (2022/23) %	3 years % per annum	5 years % per annum	10 years % per annum	Inception % per annum*
Fund Return	0.8	11.7	7.2	8.0	7.6
Benchmark Return	-12.0	4.4	4.0	5.8	6.4
Excess Return	+12.8	+7.3	+3.2	+2.2	+1.2

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

The following table analyses the 2022/23 performance of the five Policy Groups:

Policy Group	Value £m	Weight %	Fund Return %	Benchmark Return %	Excess Return %
Equities	1,913	60.5%	+1.7	-1.4	+3.1
Other Real Assets	659	20.8%	+13.6	-27.2	+40.8
Non-Gilt Debt	230	7.3%	-6.6	-10.0	+3.4
LDI	273	8.7%	-30.9	-39.1	-8.2
Cash	88	2.7%	+3.7	+2.2	+1.5
Total Fund	**3,163**	**100%**	**+0.8**	**-12.0**	**+12.8**

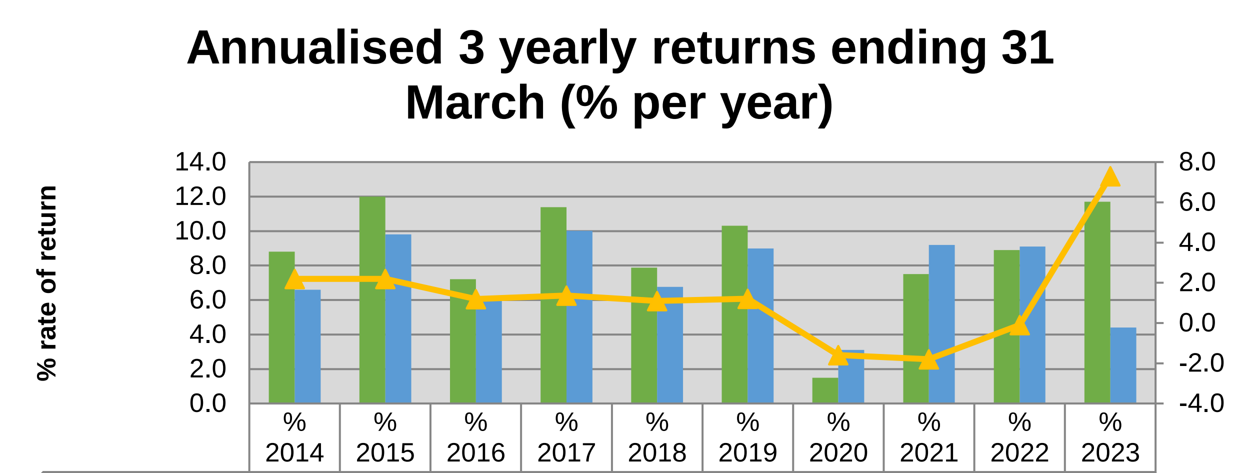
n.b. Fund valuations above are at mid-price, whereas net assets as stated in the Accounts are bid-price

The Chief Finance Officer and the JISP assess returns on a regular basis in the context of risk, mandate constraints and objectives. As well as the total Fund return being measured against an overarching benchmark, the policy groups are measured against specific benchmarks which reflect the return expectations for their asset class. Performance is reported at the quarterly Committee and Board meetings. Benchmarks are as follows:

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

Whilst a positive excess return was achieved in 2022/23, it should be noted that this was partially down to the negative returns emanating from the gilts-based benchmarks. As always, caution should be exercised in assessing performance over a short period. The Fund has liabilities stretching far into the future, so performance should be viewed in that context.

When reviewing mandates, the JISP will look at longer term performance, say, over a complete economic cycle, as well as the suitability of benchmarks. The following chart gives the 3 yearly rolling average returns for the Fund over the past 10 years. The steady outperformance in the earlier part of the last decade reflects the generally benign conditions enjoyed by investors based on low interest rates and central bank support. The 3 yearly returns as at 31 March 2020, 2021 and 2022 capture the market dips caused by the Covid pandemic and the subsequent recovery triggered by the vaccine roll out. The chart shows that only in those three years of especially unusual circumstances has the Fund failed to outperform the 3 yearly benchmark.



	% 2014	% 2015	% 2016	% 2017	% 2018	% 2019	% 2020	% 2021	% 2022	% 2023
Fund	8.8	12.0	7.2	11.4	7.9	10.3	1.5	7.5	8.9	11.7
Benchmark	6.6	9.8	6.0	10.0	6.8	9.0	3.1	9.2	9.1	4.4
Relative	2.2	2.2	1.2	1.4	1.1	1.2	-1.6	-1.8	-0.1	7.3

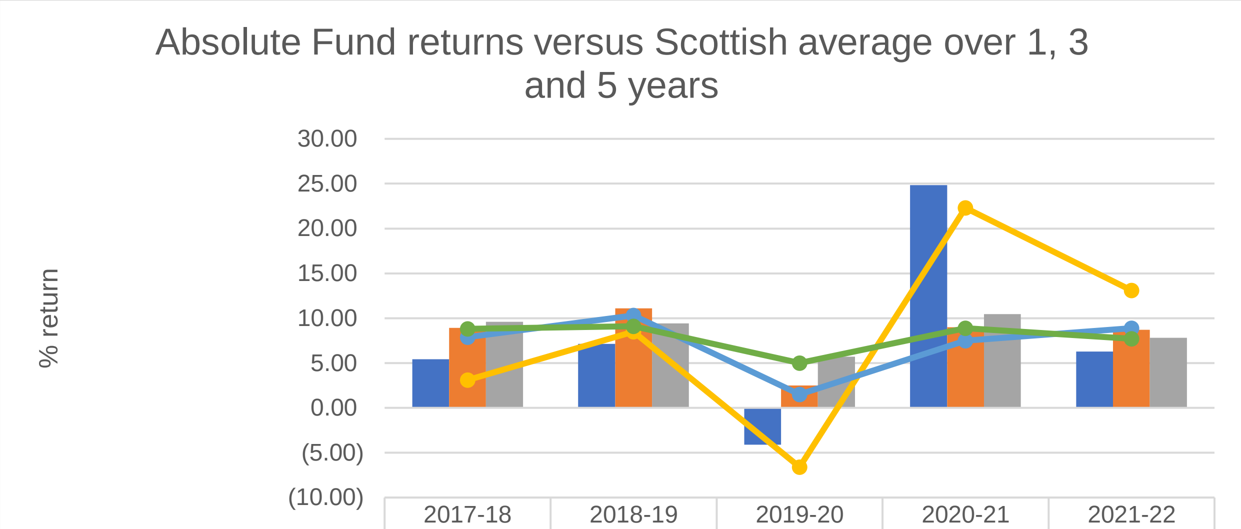
* Fund benchmark changed from 1st of April 2019

Comparative Performance –
To give an indication of how the Fund has performed in comparison with other Scottish Funds, the undernoted table shows the one-, three- and five-year returns for the Fund against the average for Scottish LGPS Funds over the same time periods. The Scottish average was calculated on data returned from 10 out of 11 LGPS funds. Both sets of returns are as at 31 March 2022, since the average results for the year to 31 March 2023 will not be available until later this year:

	1 year (2021/2022) %	**3 years % pa**	**5 years % pa**
Fund Return	13.1	8.9	7.7
LGPS Scottish Average	6.3	8.7	7.8

n.b. The LGPS Scottish Average is based on the CIPFA Scottish Directors of Finance Performance Indicators 2021/22.

The next chart shows fund performance over the past five years versus the Scottish LGPS average looking at 1, 3 and 5-year annualised returns.



	2017-18	2018-19	2019-20	2020-21	2021-22
1 year (Scottish average)	5.42	7.13	(4.11)	24.83	6.26
3 year (Scottish average)	8.91	11.10	2.50	8.99	8.71
5 year (Scottish average)	9.61	9.43	5.71	10.46	7.80
1 year (Fund)	3.10	8.50	(6.60)	22.30	13.10
3 year (Fund)	7.90	10.30	1.50	7.50	8.90
5 year (Fund)	8.80	9.10	5.00	8.90	7.70

Source: CIPFA Scottish Directors of Finance benchmarking

Fund returns annualised over 1, 3 and 5 years, have been below the Scottish average for several years. This reflects the fact that several Scottish Funds other than Falkirk made allocations in that period to growth style mandates which performed strongly, thus enhancing the average return.

The trend however has been reversed in 2021/22, with the one-year return being more than double the average return and the 3- and 5-year returns being roughly in line with the average. The strong return was attributable to the Fund’s targeting value style equities and its high exposure to Infrastructure.

Manager Monitoring
The Chief Finance Officer appoints the Fund’s investment managers under powers delegated by the Pensions Committee. Appointments are made having regard to guidance from the Joint Investment Strategy Panel (JISP).

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

- analysing quarterly manager reports
- conducting regular meetings and conference calls with managers
- reporting outcomes to the JISP

The JISP uses a traffic light system to assess overall manager effectiveness including portfolio construction, risk and return, and any wider business activities deemed to be of relevance. The JISP has regard to the fact that changing managers will incur costs for the Fund since assets may have to be transacted in the course of a mandate being taken over by a new manager.

Finally, each quarter, the Pensions Committee and Board are provided with reports on Fund and Manager performance and on matters arising from the most recent meeting of the JISP.

Manager Performance

The table below shows the annualised return achieved by managers of the larger Fund mandates over one-, three- and five-year periods to 31 March 2023:

	Absolute Return			Benchmark			Relative to Benchmark		
	1 Year	**3 Year**	**5 Year**	**1 Year**	**3 Year**	**5 Year**	**1 Year**	**3 Year**	**5 Year**
Mandate	%pa	%pa	%pa	%pa	%pa	%pa	%pa	%pa	%pa
Equities									
Newton Global	0.6	15.3	11.2	-1.4	15.5	9.7	2.1	-0.2	1.6
Schroder UK	5.5	21.4	6.5	13.0	5.3	4.7	2.6	7.6	1.4
LGIM Passive	1.1	15.2	8.3	1.2	15.2	8.3	-0.1	0.0	0.0
LGIM Reduced Carbon Path.	3.7	19.6	9.1	3.3	19.5	9.0	0.4	0.2	0.0
LGIM Glove	14.9	17.0	n/a	-1.4	15.5	n/a	16.4	1.5	n/a
Pictet Global	0.6	n/a	n/a	-1.4	n/a	n/a	-0.9	n/a	n/a
Private Equity	-16.2	3.9	n/a	-0.9	16.0	n/a	-15.2	-12.2	n/a
Real Assets									
Infrastructure	28.8	19.3	18.4	-27.2	-13.9	-4.7	56.0	33.2	23.1
Property	-14.3	4.3	n/a	-14.5	2.5	n/a	0.1	1.8	n/a
Affordable Housing	8.2	6.9	5.2	15.5	9.9	7.7	-7.3	-3.0	-2.5
Non-Gilt Debt									
Baillie Gifford Sterling Agg. Fund	-12.9	-4.8	n/a	-10.3	-3.1	n/a	-2.7	-1.7	n/a
Baillie Gifford Inv. Grade Bonds	-10.9	-2.7	n/a	-10.3	-3.0	n/a	-0.6	0.3	n/a
LGIM 6A Fund	-9.9	n/a	n/a	-9.7	n/a	n/a	-0.1	n/a	n/a

Private Debt	9.8	8.2	n/a	6.8	5.0	n/a	3.0	3.2	n/a
TIPS	-15.8	n/a	n/a	-16.3	n/a	n/a	0.5	n/a	n/a
LDI									
LPFI Index Linked Bonds	-36.6	n/a	n/a	-39.1	n/a	n/a	2.5	n/a	n/a
Baillie Gifford Sterling Agg. Fund	-12.9	-4.8	n/a	-16.3	-9.1	n/a	3.3	4.3	n/a

n/a – mandate not held for required period of time or no data available
Source: Portfolio Evaluation

Comment on Manager Performance

Equities
A modest return of 1.7% was delivered by the Fund's equities.

Of the equity managers, significant outperformance continued to be delivered by the Schroder UK Equity portfolio and the Global Low Volatility Equity (GLOVE) portfolio. The headwinds which emerged in late 2021/22 (i.e. high inflation, rising interest rates, unprecedented energy costs) continued to favour the "Value" and "Low Risk" styles of these mandates in 2022/23. The GLOVE mandate is rebalanced annually using a process which identifies the 200 stocks with the lowest volatility characteristics over the preceding 5 years.

The Newton Global Equity mandate delivered a creditable outperformance of 2.1%, albeit with a modest absolute return of 0.6%. The portfolio, which contains around 40 stocks that have been selected for their alignment with key structural themes, found progress hindered by its overweight sectors being out of favour or being impacted by macro events (e.g. the contagion triggered by the collapse of the Silicon Valley Bank in the US). The other global mandate – the Pictet Global Environmental Opportunities Fund – also returned 0.6% but like Newton was challenged as the popularity of environmentally themed stocks was hindered by consumer sentiment and rising cost of debt for portfolio companies.

The Fund's passive equity mandate which is managed by Legal and General (LGIM) and which has a significant weighting to the value-oriented UK market performed as expected delivering a 1.1% return.

A better return of 3.7% was achieved by the Fund's rules-based mandate, also managed by LGIM. With this vehicle, higher rated stocks are sold according to a strict timetable and the proceeds invested into lower rated stocks. In May 2021, the benchmark was amended so that in addition to tracking an index based on fundamentals (e.g. dividends, sales, etc) it targets a gradual reduction in annual carbon intensity.

The returns from the Fund's Private Equity managers (Abrdn and Wilshire Associates) of –16.2% were very weak. No new private equity commitments having been made since 2014, and the remaining assets now represent only 1% of total Fund value. Assets are mainly held in Europe and the US. The return reflects a combination of write down of asset valuations in the face of economic circumstances and twilight nature of the private equity investments.
The dispersion of returns across mandates is consistent with the Fund's aim of investing in a range of equity strategies which behave and perform differently to each other over the economic cycle.

Infrastructure
The infrastructure portfolio consists of two Fund of Fund vehicles managed by Grosvenor Capital and a range of investment funds managed by specialist infrastructure managers. These are all unlisted private market investments.

New opportunities are sourced and arranged through a collaborative arrangement with LPFI. To achieve diversification, the portfolio is invested across 62 limited partnership fund interests mainly in the UK, Europe and US in a mixture of Primary, Secondary, Co-investment and Single Asset Funds and across a range of sectors such as energy, transport and utilities. Around 70% of the assets are regulated or availability based and thus largely uncorrelated with economic activity. Many of the assets are fully or partially inflation linked. Notable investments were in:

i) the Beatrice and Hornsea wind farms, sited respectively off the Caithness and Humberside coasts and with a combined generating capacity of 1800 megawatts and
ii) ii) a portfolio of Waste to Energy facilities sited in Southern Scotland/Northern England.

Over the year, a highly creditable return of 28.8% was achieved, comfortably outperforming the gilts plus benchmark.

Property
The Fund's property holdings are spread across 16 funds being a mix of balanced funds and more specialist funds. The holdings are managed by a range of managers, including Schroders, Blackrock and LGIM with oversight from Falkirk and Lothian officers. During the year, a new commitment was made to the Bridges Further Alternatives Fund V – a fund with the objective of delivering social and environmental impacts as well as attractive financial returns.

With most of the Funds having a debt component in their capital structure, the rising interest rate environment, resulting in yield expansion, caused valuations to fall sharply and saw the combined portfolio make a return of –14.3% over the year.

The Fund's largest holdings are in the Blackrock UK Property Fund and Legal and General's Industrial Property Investment Fund. These fund values fell respectively by around 20% and 25% over the year with both managers citing severely weakening demand in the face of inflationary and interest rate pressures and market expectation of a recession.

A separate mandate is invested in Affordable Housing and is managed by property specialists Hearthstone. Properties are all located in Scotland in Perth, Aberdeen, Haddington, Rutherglen, Dalkeith, South Queensferry, Denny and Bo'ness. Returns have stabilised as the mandate has become more fully invested. In 2022/23, the positive return of 8.2% (in contrast with the rest of the property holdings) demonstrated the diversified qualities of the assets.

Debt
The Fund's allocations to fixed income are managed mainly by Baillie Gifford and LPFI. Smaller allocations are managed by Legal and General and by several managers in the private debt space.

In general, the fixed income managers encountered another difficult year as central banks continued to raise interest rates to control inflation thereby pushing yields higher and prices lower. Returns were negative as a result.

The Baillie Gifford managed assets are Gilts and Investment Grade Bonds. These are active mandates and returns were broadly in line or slightly below benchmark.

LPFI manages two debt funds for Falkirk, being an index linked gilts fund and a fund invested in US Treasury Inflation Protected Securities (TIPS). Both funds are managed on a passive basis and have therefore fallen in value during 2022/23. The allocation to TIPS has been made to take advantage of their inflation proofing characteristics with both the coupon payments and the principal being adjusted in line with the US Consumer Price Index. The allocation to the LPFI managed Index Linked Gilts fund was increased periodically during the year as pricing became more attractive.

The Fund also invests in a "6A" corporate bond fund managed by Legal and General – the bonds being either "AAA", "AA" or "A" in terms of credit quality. As a passive vehicle, returns were negative in line with benchmark.

The Debt assets also include investments in unlisted loans funds managed by Madison, Alcentra, Barings and BlackRock. A new allocation was made to the manager CVC during the year. The asset class is relatively new for the Fund but has pleasingly outperformed in all years since first being funded in 2019. The return in 2022/23 was 9.8% exceeding the cash plus benchmark by 3.0%.

The Fund holds debt assets as a defensive measure in order to diversify returns from assets such as equities and to provide a degree of inflation protection. Although returns from the debt policy groups have been adversely impacted by rising yields, these losses have been more than compensated for by the improved funding position resulting from the fall in Fund's liabilities also occasioned by the rising yields.

Investment Holdings

The Fund's ten largest direct equity holdings at 31 March 2023 are as listed below:

Name of Stock	Market Value as at 31/03/2023 in £	Sector
MICROSOFT CORP COM	25,222,424	Information Technology
APPLE INC COM	16,502,394	Information Technology
HSBC HLDGS	15,745,777	Financials
BARCLAYS	14,894,450	Financials
CENTRICA	14,143,894	Utilities
SAINSBURY(J)	13,687,002	Consumer Staples
TESCO	13,617,441	Consumer Staples
WOLTERS KLUWER	13,408,834	Industrials
SAP	13,060,294	Information Technology
BP	13,029,864	Energy

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

The Fund's single largest holding (excluding pooled funds) is in Microsoft and is approximately 0.78% of the Fund value, and therefore comfortably within the statutory ceiling.

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

Responsible Investment

Overview
Responsible investment is an approach to investing that aims to incorporate Environmental, Social and Governance ("ESG") considerations into investment decision making with a view to managing risks more effectively, generating sustainable, long-term returns and producing good outcomes. Increasingly, good stewardship is judged in terms of how well a fund oversees its capital without this being to the detriment of economies and wider society.

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

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

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

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

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

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

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

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

With effect from 1 January 2020, a new Code has been introduced which has “raised the bar” in terms of the standards that signatories are required to meet and is consistent with the focus on ESG matters by markets, investors, and society in general.

Falkirk strives to comply with the spirit of the Code by:

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

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

Voting and Engagement Specialist
Falkirk has appointed Hermes EOS as its specialist voting and engagement provider. Hermes EOS is an experienced practitioner with a global reach and significant client base having the capacity to engage effectively with corporates and exert influence on them. As of 31 December 2022, Hermes were providing stewardship services to clients with an aggregate of US$1.34 trillion of assets. Their appointment from 1 October 2021 is for four years.

The Hermes approach is one of constructive engagement focusing on areas where they can improve shareholder value, or at least, prevent the loss of shareholder value.

The effectiveness of Hermes engagement is monitored through measuring progress against so-called milestones, as described below:

- Milestone 1 - the raising of an issue with the company
- Milestone 2 - recognition by the company that the concern is valid
- Milestone 3 - a plan to address the issue
- Milestone 4 - successful delivery of the objective.

As well as providing quarterly engagement statistics for the Fund, Hermes produce an annual report containing case studies and public policy comment. Their website - EOS Library | Federated Hermes (International) (hermes-investment.com) - contains details of their Public Engagement Plan and Responsible Ownership Principles.

Hermes approach of constructive engagement is aligned with that of the Fund as set out in the Statement of Responsible Investment Principles and as reaffirmed at the Special Meeting of the Pensions Committee and Board on 23 October 2021.

Engagement and Divestment
It is a fundamental Fund belief that engagement is a more effective tool for changing company behaviour than divestment.

By remaining invested, an asset owner retains the ultimate sanction which is to vote on company resolutions at AGMs. And whilst engagement may be a strategy that requires considerable patience, it can gradually bring about change, especially if like-minded investors work in concert. The alternative approach, which is to divest, means that an investor gives up any opportunity to influence company policy and risks shares falling into the hands of less responsible owners or, if sufficient investors divest, into private ownership.

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

their mandate. Invariably managers will have access to industry wide company ESG ratings to help inform their views.
Holdings can be controversial, whether this be in fossil fuel, tobacco or defence companies or holdings in politically sensitive countries. Whilst the Fund could "screen out" these sectors – which could potentially damage returns and reduce diversification - it leaves those decisions to its investment managers. Where a holding is contentious, officers will check whether the issue is being monitored by Hermes and engage with the relevant manager to understand the rationale for the holding.

Whilst patient engagement is the preferred approach to addressing corporate issues, the Fund retains the option, as a last resort, of divesting from any of its holdings.

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

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

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

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

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

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

The Fund manages its climate change risk by:

- engaging with investment managers to ensure they are factoring ESG risks into their investment decision making process
- encouraging managers to join the net zero managers initiative (to support the goal of net zero greenhouse gas emissions by 2050 or sooner) in line with global efforts to limit temperature rises to 1.5%. A number of the Fund's managers are already signed up for this initiative including Legal & General, Schroders and Newton.
- by being part of the Local Authority Pension Funds Forum where the collective voting strength of around 80 funds can be used to influence corporate policy
- by being members of pressure organisations such as the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+
- by using Hermes Eos wide range of capabilities to advise:
    - whether climate strategies are robust
    - whether strategies include any carbon reduction targets
    - whether companies have sufficient Board expertise around low carbon transitioning
    - on voting recommendations on company and shareholder resolutions
- by reporting carbon emissions

Representations were made from two Fund employers in 2021 that the Fund should divest from fossil fuel related investments. The request was considered at a Special Meeting of the Pensions Committee and Board on 22 October 2021. The Committee, having considered the matter in some detail and taken "proper advice" from various investment professionals, noted the steps being taken by the Fund to address climate risk and agreed to retain the approach set out in the Fund's Statement of Responsible Investment Principles.

Specific reporting requirements on climate risk are scheduled to come into effect in December 2024. Details are awaited from the UK and Scottish Governments. In anticipation, the Fund will be asking its actuary to include climate scenario analysis in the 2023 Valuation. We will also continue to work with the Lothian and Fife Pension Funds to further develop policies in this area.

IIGCC and Climate Action 100+

The Institutional Investors Group on Climate Change is a Global entity with more than 400 members, mainly pension funds and asset managers, across 27 countries, with over €65 trillion in assets under management. Its mission is to influence governmental policies on an international scale and to mobilise capital for the low carbon transition that is required.

The **Climate Action 100+** initiative exists to engage directly with the world's largest corporate greenhouse gas emitters to challenge them to take action on climate change. More than 700 global investors are supporting engagement efforts to improve governance, curb emissions and strengthen climate-related disclosures. The companies targeted are 100 'systemically important emitters', who account for two-thirds of annual global industrial emissions, and more than 60 others who have the potential to drive the clean energy transition.

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

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

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

Emissions for calendar years 2021 and 2022 across various Fund portfolios are set out in the table below:

Manager	2021	2022	% Change
LGIM UK Equity	121.8	118.9	-2.4%
LGIM North America	127.9	140.9	+10.2%
LGIM Europe (ex UK)	113.5	112.2	-1.1%
LGIM Japan	87.6	89.9	+2.6%
LGIM Asia	192.8	193.6	+0.4%

LGIM Emerging Markets	385.6	384.5	-0.3%
LGIM Reduced Carbon Pathway	215.5	183.3	-14.9%
LGIM Global Low Volatility	475.0	462.2	-2.7%
Pictet Global Environmental Equity	153.2	169.5	+10.6%
Newton Global Equity	32.0	55.4	+73.1%
Schroders UK Equity	185.5	112.6	-39.3%
Total Equities	**181.5**	**178.7**	**-1.5%**
Baillie Gifford Investment Grade Bonds	54.1	24.7	-54.3%
LGIM 6A Corporate Bonds	37.1	31.0	-16.4%
Total Equities and Bonds	**179.7**	**171.0**	**-4.8%**
MSCI ACWI	151.0	155.9	+3.2%
MSCI UK	99.8	104.6	+4.8%

Source: MSCI/Fund Managers

Reported emissions are the weighted average carbon intensity (WACI) of each portfolio measured in tons of CO_2 / $m sales. Data relates to Scope 1 and Scope 2 emissions and has been sourced from MSCI and the relevant managers.

The Fund's equity WACI was down -1.5% year on year, while the global market's WACI increased +3.2%, reflecting the growth in carbon emissions in the real world as economies recovered post pandemic.

The Fund's aggregate equity and corporate bonds WACI was down -4.8% year on year. This was driven by double-digit declines in the WACI of the underlying credit portfolios as well as the decline in the equities WACI.

The level of Fund emissions (equities only) versus the MSCI ACWI in the past four calendar years is as follows:

Fund Assets/Benchmark	2019 WACI	2020 WACI	2021 WACI	2022 WACI	3-year change
Falkirk Equities	223	186	182	179	-19.9%
MSCI ACWI (Global Equities)	178	155	151	156	-3.2%

It is important to stress that the Fund does not invest to minimise its carbon emissions. Instead, for those investments it makes, it expects companies to be taking steps to manage their carbon risk. Three years is too short a period to draw any firm conclusions about trends, particularly when they include a global pandemic curtailing economic activity. Nonetheless, the downward trend over the 3 years since 2019 is welcome.

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

The Fund's investments in the Pictet Global Environmental Opportunities Fund, the Legal and General RAFI Fundamental Global Reduced Carbon Pathway Index Fund and separately, into UK offshore and onshore windfarm projects are consistent with this commitment.

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

The Fund continues to work with its managers towards measuring carbon levels across all assets and will be contacting relevant parties in 2023/24 for more detailed information around carbon reduction plans. For 2022/23, the Fund has started to report emissions on its Bond portfolio.

Other RI Partner Organisations

Local Authority Pension Funds Forum (LAPFF)

LAPFF is an umbrella organisation representing the interests of around 85 Local Government Pension Funds with assets of over £350 billion and exists to promote the highest standards of corporate governance and responsibility.

Membership of LAPFF is seen as a highly effective way of collaborating on ESG matters. LAPFF campaigns to change corporate behaviour include executive pay, human rights impacted by mining operations, plastics pollution, gender equality, climate change / fossil fuel emissions and reliable company accounting.

Climate risk continues to be high on the LAPFF agenda. In February 2023, ahead of the AGM season LAPFF wrote to all FTSE listed companies urging them to give shareholders a ‘Say on Climate’ vote to allow support for greenhouse gas emission strategies to be tested.

Also prevalent in 2022/23 has been LAPFF’s dialogue on behalf of indigenous communities with mining companies such as Anglo American, Glencore, Vale, BHP and Rio Tinto on health and safety issues. LAPFF continues to press companies to undertake effective social and environmental impact assessments before embarking on new developments. The responsible sourcing of minerals also extends to other industries, such as electric car makers, which relies on raw materials.

Through its support of the All-Party Parliamentary Group (APPG) for Local Authority Pension Funds, LAPFF acts as a conduit for the concerns of local authority pension funds to be raised politically.

LAPFF engagement with companies is invariably at a personal level between LAPFF office bearers and company chairs or senior executives.

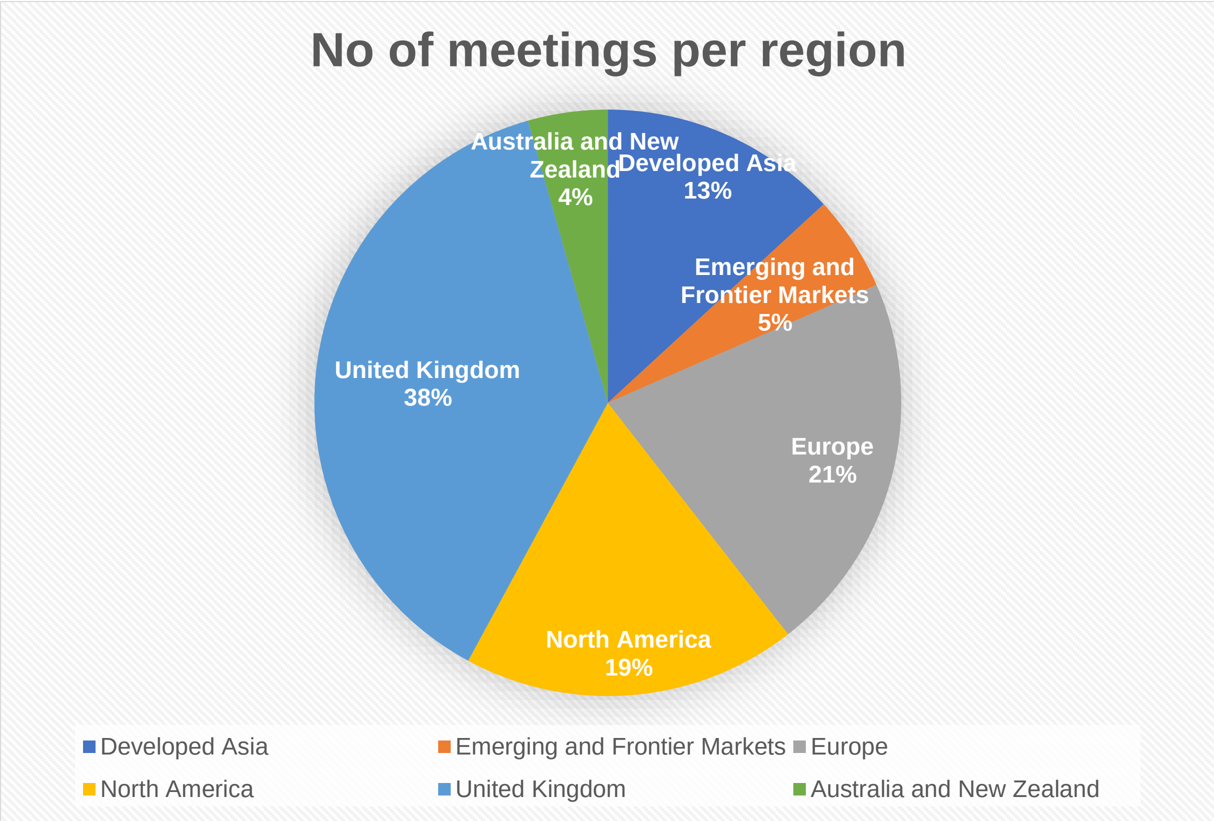
LAPFF business meetings are held on a quarterly basis and the Chair issues a weekly update to ensure LAPFF members are fully briefed on developments. LAPFF also issues “Alerts“ where voting in a particular direction is recommended.

Voting

Shareholder voting is a key tool in the Fund’s armoury as a responsible investor. The voting service is provided together with engagement services by Hermes EOS.

During 2022/23, Hermes EOS made voting recommendations at 114 meetings (1,931 resolutions). Voting against or abstaining was recommended for 233 resolutions.

The chart below shows geographical location of the meetings:



Source: EOS Hermes

The voting covered areas such as board structure, remuneration, shareholders resolution, capital structure and dividends, audit and accounts.

Litigations

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

Risk Management

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

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

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

The policy seeks to ensure that the Fund:

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

Risk Identification, Management and Review

The Fund has adopted the following “virtuous circle” for identifying, managing and reviewing risk:

Risks are identified through a variety of means, including:

- performance measurement against agreed objectives
- feedback from employers and other stakeholders
- liaison with other organisations, national associations, professional groups, etc.

- soundings from the Pensions Committee, Pension Board and Fund Advisers
- knowledge, observations and experiences of Officers
- findings of internal and external audit

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

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

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

In relation to any heightened areas of risk or newly identified risks, the Pensions Committee and Pension Board are updated as required (e.g. the risk of being ready to onboard to the Pensions Dashboard was added in February 2022). Additionally, the register is normally reviewed by senior officers at meetings attended by the Board Chairs. Once reviewed, the register is taken to the Pensions Committee for formal approval. Changes to the current risk register were formally approved at the meeting on the 17 March 2022.

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

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

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

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

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

Key Risks and Mitigations

The areas of greatest risk and the main mitigations put in place by the Fund are as follows (NB per risk register as at 31 March 2022):

Identified Risk (classified as Very High)	Responsible Officers	Mitigating Actions	Risk Rating Post Mitigation
Funding position and ability to pay benefits affected by falling asset values	Chief Finance Officer Pensions Manager	• Diverse range of assets held • Strategy overseen by Joint Investment Strategy Panel (JISP) • Allocation to income generating assets property, infrastructure and private debt • Long-term time horizon with no immediate pressure to realise assets • Periodic reviews of investment strategy	Medium
Managers under-perform or performance monitoring is ineffective	Chief Finance Officer Pensions Manager	• Reviews performed by JISP and Lothian's investment team including FCA accredited professionals • Strategic asset allocation to reduce risk • Asset and manager diversification • Quarterly calls with managers • Committee/Board and manager reporting cycle • Robust manager selection process • Option to terminate managers contract for poor performance	Medium
Asset valuations adversely affected by the impact of climate change	Chief Finance Officer Pensions Manager	• Engagement with investee companies by Fund managers • Members of LAPFF, IIGCC, Scottish Responsible Investment Group and Climate Action 100+ • ESG themed mandate being funded • Carbon foot-printing exercise	High

		• Adoption of Statement of Responsible Investment Principles • Exercising voting rights and support for climate change resolutions at AGMs e.g. Barclays and BP	
Lack of knowledge, skills and leadership amongst Committee, Board and Officers	Chief Finance Officer Pensions Manager	• Training Policy in place • Attendance at conferences or webinars • Access to wide variety of advice • Experienced officers	High
Succession planning inadequate	Chief Finance Officer Pensions Manager	• Staff training and development policies • Delegation to officers and advice from JISP • Reduce key man risk through rotation of duties • Staff access to group and web based forums • Collaborations with Lothian and Fife • Consideration of merger to lessen risk	High
Failure to issue all benefit statements by due date	Pensions Manager Pensions Officers	• Fund has regular contact with employers • Employer training sessions held as required • Employer reminders sent before/after year end • i-Connect project ongoing with all bar 5 employers moved to monthly data collection • Pension administration strategy to be implemented	High
Failure to adhere to regulatory standards (TPR) for admin and governance	Pensions Manager Pensions Officers	• Receipt and review of industry publications • Access to specialist scheme wide advisers (LGA) • Review of results of TPR "deep dives – focus on policies, processes and people"	High

		• Scheme return completed annually and participate in TPR surveys • Rolling data improvement plan • Consideration of merger to lessen risk • Pension administration strategy to be implemented	
Failure of IT systems including Altair (key admin/payroll system)	Pensions Manager Pensions Officers	• Altair is a hosted, industry standard system • Altair contingency arrangements tested annually • Data backed-up daily by FC ICT and Heywood • Council is reviewing Business Continuity arrangements for wider scenarios than COVID • Most applications used are web based • Pensions staff equipped with laptops	Medium
Cyber security attack	Chief Finance Officer Pensions Manager	• Heywood have provided certificates for compliance with ▪ Cyber Essentials Scheme (expire 10/9/22) ▪ ISO 27001:2013 (expires 19/12/23) ▪ ISO 9001:2015 (expires 19/12/23) ▪ IOS 14001:2015 (expires 30/11/23) • Heywood moved to Cloud hosting • Heywood provide a summary of their annual penetration testing and cyber security reviews • Falkirk Council has attained Cyber Essentials certification and PSN Certification • Regular staff reminders re data security	High
Failure to be data ready and able to supply required data for proposed	Pensions Manager and Pensions Officers	• Pension administration system provider is developing a data transfer system • Data cleansing tools available and used	High

Pensions Dashboard onboarding planned for 2023)		• Data quality audit undertaken • Data review and improvement plan put in place	
Inaccurate member data on Altair or incomplete member data due to employer omissions	Pensions Manager	• Online data submissions directly from employer • Employer training sessions • Year end queries followed up with employers and made aware of any themes • Data cleansing tools available and used • Data quality audit undertaken • Data review and improvement plan put in place • Employer forms revised to improve clarity • Trained staff review of records • Address tracing undertaken periodically • Use of Tell Us Once (TUO) to notify of deaths	High
Staff error or backlogs in service delivery	Pensions Manager Pensions Officers	• Experienced core workforce • Additional staff recruited • Industry standard pensions admin system • Transactions subject to checking mechanism • Robust staff selection procedures • Online procedures manual • Annual staff training • Outstanding caseload monitored	High
Adverse impact on business as usual and member experience as a result of disruption due to plans to consider a merger	Chief Finance Officer and Pensions Manager	• Levelling up merger activity will improve resilience and member experience reduce • Consultants engaged to assess the case for merger • Business case produced by consultants and costed merger proposal agreed by Board and Committee • Detailed project plan “Forth” in place	Medium

Data Security and Cyber Risk

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

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

- Staff are trained regularly on their obligations in respect of confidentiality, data protection and information security
- New staff have these responsibilities and policies explained to them as part of their induction and their understanding is checked
- Where data must be transferred off site, the Fund uses either secure FTP, VPN, or SharePoint - a secure Microsoft file exchange application
- Data classed as sensitive personal data transferred on site is password protected
- Paper records are securely destroyed
- Password protected laptops are provided to all staff to enable them to work in or away from the office, as part of the business continuity plan
- The Pensions Administration System complies with the standards contained in ISO/IEC 27001 information security management
- Data Processing Agreements are in place with third party processors (e.g. the Fund Actuary and the vendor of the administration software)
- A data sharing agreement is in place with the pensions authority that maintains the LGPS National Insurance database.

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

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

Investment Risk

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

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

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

Fund manager/administrator	Type of report	Assurance obtained	Service Auditors
Abrdn	AAF 01/20/ ISAE3402	Reasonable assurance	KPMG LLP
Alcentra/Unite/ Sanne/Apex	ISAE 3402	Reasonable assurance	KPMG LLP
Ardian	ISAE 3402	Reasonable assurance	PWC LLP
Atestine/Bridges/CVC/Apex Group Ltd	SSAE18 & ISAE3402	Reasonable assurance	Deloitte
Ancala/Octopus/IQ-EQ	SSAE18 & ISAE3402	Reasonable assurance	BDO LLP
Apogem Capital/JP Morgan	SOC 1	Reasonable assurance	PWC LLP
Baillie Gifford	ISAE 3402	Reasonable assurance	PWC LLP
Barings	SSAE18 & ISAE3402	Reasonable assurance	Grant Thornton
Blackrock/Brookfield/State Street	SOC 1	Reasonable assurance	EY LLP
Dalmore Capital	ISAE 3402	Reasonable assurance	PWC LLP
GCM Customised Fund Investment Group	SOC 1	Reasonable assurance	EY LLP
Gresham House	ISAE 3402	Reasonable assurance	Grant Thornton
Iona Capital/Langham Hall	AAF 01/20/ ISAE3402	Reasonable assurance	Haysmacintyre LLP
InfraCapital/ M&G	AAF 01/20	Reasonable assurance	KPMG
Global Infrastructure Partners/JP Morgan	ISAE 3402	Reasonable assurance	PWC LLP
Hermes	AAF 01/20/ ISAE3402	Reasonable assurance	EY LLP
L&G/JTC (Jersey) Ltd	ISAE3402	Reasonable assurance	PWC LLP
Legal & General	AAF 01/20/ ISAE3402	Reasonable assurance	KPMG LLP
Macquarie/AlterDomus	ISAE3402	Reasonable assurance	EY LLP

Newton Investment Management	ISAE3402	Reasonable assurance	KPMG LLP
Oaktree Capital Management LP	attestation standards established by the American Institute of Certified Public Accountants	Reasonable assurance	EY LLP
Pictet Asset Management Limited	ISAE3402	Reasonable assurance	PWC LLP
Schroder Investment Management	AAF 01/20/ ISAE3402	Reasonable assurance	EY LLP
Equitix	ISAE 3042	Reasonable assurance	BDO LLP
UBS (Greensands)	ISAE 3402	Reasonable assurance	EY LLP

Statements of Responsibilities

Administering Authority's Responsibilities

The Authority is required to:

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

I confirm that these Annual Accounts were approved for signature by the Falkirk Council Pension Fund Committee at its meeting on 30 November 2023.

Lorna Binnie

Councillor Lorna Binnie
Chair of the Pensions Committee

08 December 2023

Chief Finance Officer Responsibilities

The Chief Finance Officer is responsible for the:

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

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

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

The Chief Finance Officer has also:

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

Certificate by the Chief Finance Officer

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2023 and the transactions of the Pension Fund for year ended 31 March 2023.

Amanda Templeman

Amanda Templeman, CPFA
Chief Finance Officer (Falkirk Council)

08 December 2023

Independent Auditor's Report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission

Reporting 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 Falkirk Council Pension Fund (the fund) for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Asset 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 UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2023 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 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)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. 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 was appointed by the Accounts Commission on 3 April 2023. My period of appointment is five years, covering 2022/23 to 2026/27. 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. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. 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 concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent Auditor's Report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission continued

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

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from Audit Scotland website.

Risks of material misstatement
I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

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

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

Falkirk Council is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements
My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 decisions of users taken on the basis of these financial statements.

Independent Auditor's Report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission continued

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

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Chief Finance Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;
- inquiring of the Chief Finance Officer concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework; discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Independent Auditor's Report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission continued

Reporting on other requirements
Other information
The Chief Finance Officer is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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 the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

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 Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Independent Auditor's Report to the members of Falkirk Council as administering authority for Falkirk Council Pension Fund and the Accounts Commission continued

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.

Conclusions on wider scope responsibilities
In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report
This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Pauline Gillen

Pauline Gillen
Audit Director
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

08 December 2023

Pension Fund Account

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

Dealings with members, employers and others directly involved in the fund	**2021/22 in '000**	**2022/23 in '000**	**Note**
Contributions	(102,145)	(107,069)	7
Transfers in from other pension funds	(3,670)	(8,243)	8
	(105,815)	**(115,312)**	
Benefits	84,176	94,266	9
Payments to and on account of leavers	6,181	6,702	10
	90,357	**100,968**	
Net (additions)/withdrawals from dealings with members	**(15,458)**	**(14,344)**	
Management expenses	19,011	21,014	11
Net (additions)/withdrawals including fund management expenses	**3,553**	**6,670**	
Return on Investment			
Investment income	(56,964)	(65,458)	12
Taxes on income	1,692	2,591	
Profit and losses on disposal of investments and changes in market value of investments	(310,010)	64,533	14a
Net return on investments	**(365,282)**	**1,666**	
Net (increase)/decrease in the net assets available for benefits during the year	**(361,729)**	**8,336**	
Opening net assets of the scheme	**2,841,852**	**3,203,581**	
Closing net assets of the scheme	**3,203,581**	**3,195,245**	

Pension Fund Net Asset Statement

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

	2021/22 in '000	2022/23 in '000	Note
Investment assets	3,189,779	3,178,186	14
Investment liabilities	(600)	(2,599)	14
Total net investments	**3,189,179**	**3,175,587**	
Long-term assets	44	87	20a
Current assets	16,810	22,892	20
Current liabilities	(2,452)	(3,321)	21
Net Assets of the fund available to fund benefits at the period end	**3,203,581**	**3,195,245**	

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

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 30 June 2023 and the audited Statement of Accounts was authorised for issue on 30 November 2023. The Statements of Accounts present a true and fair view of the financial position of the Pension Fund as at 31 March 2023 and its income and expenditure for the year ended 31 March 2023

Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

Amanda Templeman

Amanda Templeman, CPFA
Chief Finance Officer (Falkirk Council)

08 December 2023

Notes to the Accounts

1. Fund and Scheme Overview

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

The LGPS is a public service pension scheme which provides defined benefits on a career average basis (NB benefits built up before 1 April 2015 are provided on a final salary basis). The Scheme falls under the regulatory framework of the Public Service Pensions Act 2013. The Scheme is also registered with HM Revenue and Customs as a UK approved pension scheme and was formerly contracted-out of the State Second Pension.

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

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

The regulations are supplemented by guidance from the Scottish Ministers and the Government Actuary's Department. Best practice guidance is provided by the Pensions Regulator.

Administration of the Falkirk Council Pension Fund is undertaken by an in-house team who oversee the Fund's investments and the benefits of its scheme members. This includes the contributors, deferred and pensioner members of Clackmannanshire, Falkirk, and Stirling Councils, as well as around 21 other employers. Teachers (who are also local authority employees) do not come within the scope of the LGPS as they have their own national pension arrangement. A full list of employers who participate in the Falkirk Council Pension Fund is included in this report in Appendix 2.

Membership

Membership of the LGPS is voluntary. However, employees are automatically enrolled into the Scheme either as a result of automatic enrolment legislation or by virtue of the Scheme's own contractual enrolment provisions. Employees are free to choose whether to remain in the Scheme or, having opted out, join it at a later date.

Organisations participating in the Scheme fall into two categories:
Scheduled Bodies - organisations such as local authorities that are required by statute to offer the Scheme to their employees.

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

Full details of membership numbers are contained on page 36 of the Annual Report.

Benefits

Before 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2015, the scheme became a career average scheme and members build up a pension that is based on $1/49^{th}$ of their pensionable pay in that year. The pension that is built up is then revalued each year in line with the Consumer Prices Index.

The Scheme's benefits are summarised in the table below:

	Service before 1 April 2009	**Service after 31 March 2009**	**Service after 31 March 2015**
Pension	Each year worked is worth $1/80^{th}$ x final pensionable salary	Each year worked is worth $1/60^{th}$ x final pensionable salary	Each year worked is worth 1/49th of pensionable earnings
Lump Sum	Automatic lump sum of 3 x annual pension In addition, part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 of pension surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 of pension surrendered.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 of pension surrendered.

Where the lump sum is greater than the maximum tax free lump sum permitted by HM Revenue and Customs (25% of the capital value of the Scheme benefits), a tax charge will apply.

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

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2022/23 financial year and its position at year end as at 31 March 2023.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The code requires the disclosure of information relating to the impact of an accounting change that will be required by new standards that have been issued but not yet adopted.

The standards introduced by 2023-24 Code are:
- IFRS16 lease (but only for local authorities that have decided to adopt IFRS 16 in the year 2023-24)
- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

None of the matters covered above will have significant impact on the amounts to be reported in the financial statement with the last two items having limited application.

The accounts report on the net assets available to pay pension benefits. They do not take account of the obligation to pay pensions and benefits which fall due after the end of the financial year, nor do they take account of the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement or in the notes to the accounts by appending an actuarial report for this purpose. The Fund has opted to disclose this information in Note 19.

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Fund will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue; this being at least 18 months from the approval of these financial statements at 30 November 2023.

3. Summary of Significant Accounting Policies

Fund Account - revenue recognition

a) Contribution income

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

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

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

b) Transfers to and from other schemes

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

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

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

c) Investment income

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

Fund Account - expense items

d) Benefits payable

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

e) Taxation

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

f) Management Expenses

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

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

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

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

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

Net assets statement

g) Financial assets

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in “Practical Guidance on Investment Disclosures” (PRAG/Investments Association, 2016) (see Note 15).

h) Freehold and leasehold properties

The Fund’s directly owned property was valued at 31 March 2023 by independent external valuers on the fair value basis and in accordance with the latest edition of the RICS Valuation - Professional Standards (Red Book), see Note 15 for more details.

i) Foreign currency transactions and balances

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

j) Cash and cash equivalents

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

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

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVCs) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2010 but are disclosed for information in Note 22.

n) Contingent assets and contingent liabilities

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

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

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 24)

4. Critical Judgement in Applying Accounting Policies

Pension Fund Liability

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

The estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: -a 0.1% p.a. increase in the pension increase rate would increase liabilities by £47m -a 0.1% increase in salary increase rate would increase liabilities by £6m -0.1% decrease in the real discount rate would increase future liabilities by £52m - 1 year increase in member life expectancy would increase liabilities by £107m.
Directly held property (Note 15)	Valuation techniques are used to determine the carrying values of	Changes in the valuation assumptions used, together with significant

	directly held property. Where possible these valuation techniques are based on observable data, otherwise the best available data is used	changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments by up to 13% i.e. an increase or decrease of £377k on carrying values of £2.9m.
Private Equity Infrastructure/Private Debt (Note 15)	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (December 2018). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity, infrastructure, private debt investments are valued at £578m in the financial statements. There is a risk that this investment may be under- or overstated in the accounts by up to 26% depending on asset class, i.e. an increase or decrease of £72m. Details for each category are shown in the Note 15.

6. Events after the Balance Sheet Date

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

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

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

The Fund has received updated Private Equity/Infrastructure/Private Debt statements for 31 March 2023 after preparing the accounts. The variance between the valuation included in the accounts and the updated statements amounts to £6.7m (£19.2m at 31 March 2022). The amount is not material and therefore no adjustment has been made in the Net Asset Statement.

7. Contributions Receivable

By Category	2021/22	2022/23
	£'000	£'000
Employees' contributions	21,757	23,060
Employers' contributions	79,360	83,428
Employers' deficit recovery contributions	1,028	581
Total	102,145	107,069

By type of Employer	2021/22	2022/23
	£'000	£'000
Administering authority	35,453	39,647
Other scheduled bodies	56,674	60,278
Admitted bodies	10,018	7,144
Total	102,145	107,069

8. Transfers from Other Pension Funds

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

	2021/22	2022/23
	£'000	£'000
Individual transfers	3,670	8,243

9. Benefits Payable

By Category	2021/22	2022/23
	£'000	£'000
Pensions	64,990	69,532
Commutation and lump sum retirement benefits	16,527	21,946
Lump sum death benefits	2,659	2,788
Total	84,176	94,266

By type of Employer	2021/22	2022/23
	£'000	£'000
Administering authority	30,335	34,680
Other scheduled bodies	48,102	53,472
Admitted bodies	5,739	6,114
Total	84,176	94,266

10. Payments to and on Account of Leavers

By Category	2021/22	2022/23
	£'000	**£'000**
Refunds to members leaving service	169	**222**
Individual transfers	5,683	**6,480**
Group transfers	329	**-**
Total	6,181	**6,702**

11. Management Expenses

By Category	2021/22	2022/23
	£'000	**£'000**
Administrative costs	984	**1,044**
Investment management expenses	16,914	**18,465**
Oversight and governance costs	1,014	**1,026**
Project Forth	99	**479**
Total	19,011	**21,014**

11a. Investment Management Expenses

2022/23	Total	Management fees*	Performance related fees	Transaction costs
Bonds	**70**	70	-	-
Equities	**5,615**	2,511	-	3,104
Pooled Investments	**3,785**	1,801	-	1,984
Managed Property Funds	**2,039**	1,905	-	134
Private Equity	**476**	457	19	-
Infrastructure	**5,472**	3,830	1,603	39
Private Debt	**825**	784	41	-
		11,358	**1,663**	**5,261**
Custodian Fees	**115**			
Other	**68**			
	18,465			

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

2021/22	Total	Management fees*	Performance related fees	Transaction costs
Bonds	**24**	24	-	-
Equities	**3,095**	2,498	-	597
Pooled Investments	**5,773**	3,525	-	2,248
Managed Property Funds	**1,734**	1,575	145	14
Private Equity	**895**	446	449	-
Infrastructure	**4,778**	3,052	1,726	-
Private Debt	**524**	436	88	-
		11,556	**2,408**	**2,859**
Custodian Fees	**81**			
Other	**10**			
	16,914			

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

In addition to the fees disclosed in this note, the Fund also incurred indirect management fees resulting from investments in fund of funds structures. The estimated value of these fees in 2022/23 is £2.5 m (£2.6m in 2021/22).

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

12. Investment Income

By Category	2021/22	2022/23
	£'000	**£'000**
Income from equities	32,197	**34,127**
Private equity income	368	**191**
Income from bonds	254	**1,041**
Pooled property investments	5,282	**5,885**
Directly owned property	211	**255**
Infrastructure	13,801	**16,394**
Private debt	4,714	**4,559**
Affordable housing	124	**472**
Cash and other income	13	**2,534**
Total before tax	56,964	**65,458**

13. Other Fund Account Disclosures

13a. External Audit Costs

	2021/22	2022/23
	£'000	**£'000**
Payable in respect of external audit	30	**30**

14. Investments

Investment Assets	**2021/22**	**2022/23**
	£'000	**£'000**
Bonds	190,089	**273,775**
Equities	784,466	**1,053,899**
Pooled investments		
Equities	1,140,596	**793,924**
Fixed income	169,571	**148,651**
Diversified growth	123,666	**-**
Affordable housing	23,336	**24,456**
Other Investments		
Managed property funds	193,068	**161,582**
Directly owned property	2,900	**2,900**
Private equity	38,446	**31,048**
Infrastructure	321,300	**468,667**
Private debt	65,752	**77,970**
Cash deposits	130,081	**132,499**
Investment income due	6,508	**8,583**
Amounts receivable for sales	-	**232**
Total Investments Assets	3,189,779	**3,178,186**
Investments Liabilities		
Amounts payable for purchases	(600)	**(2,599)**
Total Investment Liabilities	(600)	**(2,599)**
Net Investment Assets	3,189,179	**3,175,587**

14a. Reconciliation of Movements in Investments and Derivatives

Period	**Market value 01/04/2022**	**Purchases at cost**	**Sales proceeds**	**Change in market value**	**Market value 31/03/2023**
Investment Assets					
Bonds	190,089	189,466	(35,496)	(70,284)	**273,775**
Equities	784,466	183,571	(178,426)	264,288	**1,053,899**

Pooled investments	1,457,169	-	(203,629)	(286,509)	**967,031**
Managed property funds	193,068	8,577	(8,941)	(31,122)	**161,582**
Directly owned property	2,900	-	-	-	**2,900**
Private equity	38,446	1,177	(9,528)	953	**31,048**
Infrastructure	321,300	120,820	(29,453)	55,999	**468,667**
Private debt	65,752	15,373	(5,690)	2,536	**77,970**
	3,053,190	**518,984**	**(471,163)**	**(64,139)**	**3,036,872**
Cash deposits	130,081	2,889	(5,033)	(394)	**132,499**
Amounts receivable for sale	-				**232**
Investment income due	6,508				**8,583**
Payable for purchases	(600)				**(2,599)**
Net investment assets	**3,189,179**			**(64,533)**	**3,175,587**

Period	**Market value 01/04/2021**	**Purchases at cost**	**Sales proceeds**	**Change in market value**	**Market value 31/03/2022**
Investment Assets					
Bonds	43,530	154,823	-	(8,264)	**190,089**
Equities	785,601	219,256	(313,469)	93,078	**784,466**
Pooled investments	1,425,059	100,000	(214,798)	146,908	**1,457,169**
Managed property funds	152,779	10,776	(2,847)	32,360	**193,068**
Directly owned property	2,500	-	-	400	**2,900**
Private equity	41,337	755	(16,489)	12,843	**38,446**
Infrastructure	249,953	78,214	(35,781)	28,914	**321,300**
Private debt	63,723	5,064	(3,982)	947	**65,752**
	2,764,482	**568,888**	**(587,366)**	**307,186**	**3,053,190**
Cash deposits	75,445	2,945	(1,070)	2,824	**130,081**
Amounts receivable for sale	696				**-**

Investment income due	4,514				**6,508**
Payable for purchases	(12,197)				**(600)**
Net investment assets	**2,832,940**			**310,010**	**3,189,179**

14b. Investments Analysed by Fund Manager

	2021/22	2021/22	2022/23	2022/23
	£'000	%	£'000	%
L&G Investment Management Ltd	1,043,762	32.7	**686,108**	**21.5**
LPFI Ltd	190,906	6.0	**585,101**	**18.4**
Schroder Investment Management Ltd	452,842	14.2	**427,654**	**13.5**
Newton Investment Management Ltd	445,504	14.0	**408,709**	**12.9**
Pictet Asset Management	159,972	5.0	**160,958**	**5.1**
Baillie Gifford & Co Ltd	274,683	8.6	**131,931**	**4.2**
Dalmore Capital	90,764	2.8	**123,844**	**3.9**
Equitix Investment Management	50,115	1.6	**75,968**	**2.4**
Grosvenor Capital	55,595	1.7	**58,775**	**1.9**
Blackrock	43,519	1.4	**36,335**	**1.1**
Innisfree	24,383	0.8	**27,940**	**0.9**
Hearthstone	23,336	0.7	**24,456**	**0.8**
Global Infrastructure Partners	20,702	0.6	**21,986**	**0.7**
Iona Renewables	-	-	**20,579**	**0.6**
Apogem Capital	19,073	0.6	**20,326**	**0.6**
Abrdn	23,967	0.8	**20,261**	**0.6**
Wilshire Private Markets Group	25,715	0.8	**19,824**	**0.6**
Ancala Partners	19,590	0.6	**18,092**	**0.6**
Barings	17,552	0.6	**17,759**	**0.6**
Astatine Investment Partners	11,129	0.3	**17,447**	**0.5**
Vauban	-	-	**17,309**	**0.5**
Alcentra	16,516	0.5	**17,100**	**0.5**
Greensphere	10,177	0.3	**15,419**	**0.5**
Hermes Investment Management	17,938	0.6	**15,086**	**0.5**
Gresham House	3,018	0.1	**12,362**	**0.4**
CVC Credit Partners	-	-	**11,828**	**0.4**
Brookfield Infrastructure Group	11,930	0.4	**11,172**	**0.4**
Meridiam Infrastructure North America Corporation	-	-	**9,790**	**0.3**
The Unite Group	5,754	0.2	**9,102**	**0.3**
Octopus Real Estate	4,939	0.2	**7,310**	**0.2**
Macquarie	4,790	0.2	**6,826**	**0.2**

InfraRed Capital Partners Ltd	6,195	0.2	**6,656**	**0.2**
Ardian	1,533	-	**6,036**	**0.2**
KKR	4,487	0.1	**5,156**	**0.2**
InfraCapital Partners	-	-	**4,218**	**0.1**
Resonance Wind	2,751	0.1	**3,835**	**0.1**
UBS/Greensands	2,448	0.1	**2,448**	**0.1**
Bridges Fund Management Ltd	-	-	**2,273**	**0.1**
Harbert Management Corporation	4,142	0.1	**2,227**	**0.1**
Oaktree Capital	-	-	**582**	**-**
Nuveen	2,292	0.1	**-**	**-**
Directly Owned Property	2,900	0.1	**2,900**	**0.1**
In-House Cash	94,259	3	**101,899**	**3.2**
Total	3,189,179	100	**3,175,587**	**100**

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

	2021/22	2021/22	2022/23	2022/23
	£'000	%	**£'000**	**%**
L&G UK Equity Index (OFC)	181,667	5.7	**167,580**	**5.3**
L&G RAFI Fundamental Global Reduced Carbon Pathway Eqy Idx	164,358	5.2	**170,512**	**5.4**
PICTET Global Envir OPPS Z GBP ACC	159,972	5.0	**160,958**	**5.1**

14c. Securities Lending

The Fund did not participate in any stock lending programmes.

14d. Property Holdings

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

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

	2021/22	2022/23
	£'000	**£'000**
Within one year	258	**224**
Between one and five years	562	**310**
Later than five years	1	**0**
Total	821	**534**

15. Fair Value – Basis of Valuation

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 – where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted bonds and unit trusts.
Level 2 – where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.
The valuation basis for each category of investment asset is set out below:

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Level 1			
Quoted equities	The published bid market price on the final day of the accounting period	Not required	Not required
Cash and cash equivalents	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Amounts receivable from investment sales	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Investment debtors and creditors	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Level 2			
Gilts, TIPS (Treasury	Fixed income securities are priced	Evaluated price feeds	Not required

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

Sensitivity of assets valued at level 3

Having considered historical data and current market trends, and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2023.

	Assessed valuation range (+/-)	Value at 31 March 2023	Potential change (+/-)	Value on increase	Value on decrease
	%	£'000	£'000	£'000	£'000

Infrastructure	12.0%	468,667	56,240	524,907	412,427
Private debt	10.5%	77,970	8,187	86,157	69,783
Private equity	26.0%	31,048	8,072	39,120	22,976
Affordable housing	13.0%	24,456	3,179	27,635	21,277
Directly held property	13.0%	2,900	377	3,277	2,523
		605,041	**76,055**	**681,096**	**528,986**

15a. Fair Value Hierarchy

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

Values at 31 March 2023	**Quoted market prices Level 1**	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Total**
Financial assets at fair value through profit and loss	**£'000**	**£'000**	**£'000**	**£'000**
Bonds		273,775		**273,775**
Equities	1,053,899			**1,053,899**
Pooled Investments		942,575	24,456	**967,031**
Managed Property Funds		159,309	2,273	**161,582**
Private Equity			31,048	**31,048**
Infrastructure			468,667	**468,667**
Private Debt			77,970	**77,970**
Cash deposits	132,499			**132,499**
Investment income due	8,583			**8,583**
Amounts receivable from sale	232			**232**
Net investments assets	**1,195,213**	**1,375,659**	**604,414**	**3,175,286**
Non-financial assets at fair value through profit and loss				
Property			2,900	**2,900**
Financial liabilities at fair value through profit and loss				

Payable for investment purchases	**(2,599)**			**(2,599)**
Total	**1,192,614**	**1,375,659**	**607,314**	**3,175,587**

15b. Reconciliation of fair value measurements within Level 3

	Infrastructure	**Private debt**	**Private equity**	**Affordable housing**	**Directly held property**	**Total**
	in £'000	in £'000	in £'000	in £'000	in £'000	**In £'000**
Value at 31 March 2022	321,300	65,752	38,446	23,336	2,900	451,734
Purchases	120,821	15,372	1,177	-	-	**137,370**
Sales	(29,453)	(5,690)	(9,528)	(337)	-	**(45,008)**
Unrealised gains and losses*	37,115	1,736	(4,342)	1,457	-	**35,966**
Realised gains and losses*	18,884	800	5,295	-	-	**24,979**
Value at 31 March 2023	**468,667**	**77,970**	**31,048**	**24,456**	**2,900**	**605,041**

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

	Infrastructure	**Private debt**	**Private equity**	**Affordable housing**	**Directly held property**	**Total**
	in £'000	in £'000	in £'000	in £'000	in £'000	**In £'000**
Value at 31 March 2021	249,953	63,723	41,337	23,087	2,500	**380,600**
Purchases	78,214	5,064	755	-	-	**84,033**
Sales	(35,781)	(3,982)	(16,489)	(720)	-	**(56,972)**
Unrealised gains and losses*	15,069	443	5,792	9,695	-	**30,999**
Realised gains and losses*	13,845	504	7,051	(8,726)	400	**13,075**
Value at 31 March 2022	**321,300**	**65,752**	**38,446**	**23,336**	**2,900**	**451,734**

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

16. Classification of Financial Instruments

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

		2021/22			**2022/23**	
	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
Financial Assets	in'000	in'000	in'000	in'000	in'000	in'000
Bonds	190,089			273,775		
Equities	784,466			1,053,899		
Pooled Investments	1,457,169			967,031		
Manged Property Funds	193,068			161,582		
Private Equity	38,446			31,048		
Infrastructure	321,300			468,667		
Private Debt	65,752			77,970		
Cash		130,081			132,499	
Other investment balances		6,508			8,815	
Debtors		16,854			22,979	
	3,050,290	**153,443**	**-**	**3,033,972**	**164,293**	**-**
Financial Liabilities						
Other investment balances			(600)			(2,599)
Creditors			(2,452)			(3,321)
	3,050,290	**153,443**	**(3,052)**	**3,033,972**	**164,293**	**(5,920)**
Total		**3,200,681**			**3,192,345**	
Amounts not classified as financial instruments		**2,900**			**2,900**	
Total Net Assets		**3,203,581**			**3,195,245**	

17. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

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

Types of Investment Risk

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

(i) Market Risk

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

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

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

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

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

(ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is recognised by the Fund and its investment advisors. The Fund monitors the interest rate risk faced and will adjust its strategy in accordance with its Statement of Investment Principles. The Fund's direct exposure to interest rate movement as at 31 March 2023 is estimated to be around £556m (31 March 2022: £544m).

(iii) Currency Risk

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

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

The Fund's currency exposure as at 31 March 2023 is estimated to be around £831m (31 March 2022: £625m).

(iv) Credit Risk

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

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

The main area where risk is not reflected in a market price is cash deposits which at 31 March 2023 accounted for 4.6% of Fund assets (31 March 2022: 4.1%).

Held for investment purposes	**Balance 31/03/2022 £'000**	**Moody's Credit Rating**	**Balances 31/03/2023 £'000**
Northern Trust Global Investment Limited – Liquidity Funds	114,549	Aa2	118,986
Aberdeen Standard Liquidity Fund (Lux) Sterling	5,000	AAA-mf	5,000
Northern Trust Company – Cash Deposits	805	Aa2	3,890
Santander UK PLC	4,562	A1	4,613
Bank of Scotland PLC	5,166	A1	-
Total investment cash	**130,082**		**132,489**
Held for other purposes			
Royal Bank of Scotland	8,469	A1	13,185
Total cash	**138,551**		**145,674**

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

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

(v) Liquidity Risk

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

A majority of the Fund's investment assets (estimated to be around 75.8%) could be converted into cash within three months in normal market conditions.

(vi) Refinancing Risk

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

Sensitivity Analysis

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

Asset type	Potential price movement (+ or -)
Equities developed markets	20.5%
Equities – Emerging Markets	28.0%
Private Equity	26.0%
Private Debt	10.5%
Commodities	30.0%
Property	13.0%
Infrastructure	12.0%
Corporate Bonds	8.0%
Fixed Interest Gilts	11.2%
Index-Linked Gilts	11.8%
Overseas bonds	10.1%
Cash	1.5%

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

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

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

Position as at 31 March 2023

Asset type	Asset value £'m	Asset weight	Volatility	Potential change +/- in £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	1,771.0	55.8%	20.5%	363.1	2,134.1	1,407.9
Equities – Emerging Markets	82.2	2.6%	28.0%	23.0	105.2	59.2
Private Equity	31.0	1.0%	26.0%	8.1	39.1	22.9
Private Debt	78.0	2.5%	10.5%	8.2	86.2	69.8
Property – Balanced	189.0	6.0%	13.0%	24.6	213.6	164.4
Infrastructure	468.7	14.8%	12.0%	56.2	524.9	412.5
Corporate Bonds	67.4	2.1%	8.0%	5.4	72.8	62.0
Fixed Interest Gilts	36.1	1.1%	11.2%	4.0	40.1	32.1
Index-Linked Gilts	223.9	7.1%	11.8%	26.4	250.3	197.5
Overseas bonds	88.6	2.8%	10.1%	8.9	97.5	79.7
Cash	139.7	4.4%	1.5%	2.1	141.8	137.6
Uncorrelated	**3,175.6**	**100.0%**	**16.7%**	**530.0**	**3,705.6**	**2,645.6**
Including asset correlations	**3,175.6**		**13.2%**	**420.5**	**3,596.1**	**2,755.1**
Including asset & liability correlations	**3,175.6**		**15.2%**	**483.2**	**3,658.8**	**n/a**

The "Potential change" column shows the monetary effect of the expected volatility relative to each asset class. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three. It can also be seen that the risk to the overall Fund assets is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities. This risk is shown in the bottom row of the table. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities. It should be noted that the asset allocation used for this analysis will differ to that shown in the financial statements earlier. This is due to the Fund reporting its asset allocation in the financial statements according to each Manager's mandate, whilst for this section the most appropriate means is to analyse the mandate according to the underlying elements.

The corresponding details as at 31 March 2022 are set out in the table below.

Asset type	Asset value £'m	Asset weight	Volatility	Potential change +/- in £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	1,851.6	58.0%	20.5%	379.6	2,231.2	1,472.1
Equities – Emerging Markets	103.3	3.2%	28.0%	28.9	132.2	74.4
Private Equity	38.4	1.2%	26.0%	10.0	48.4	28.5
Private Debt	65.8	2.1%	10.5%	6.9	72.7	58.8
Commodities	5.2	0.2%	30.0%	1.6	6.8	3.6
Property – Balanced	229.9	7.2%	13.0%	29.9	259.8	200.0
Infrastructure	351.0	11.0%	12.0%	42.1	393.1	308.8
Corporate Bonds	63.7	2.0%	7.5%	4.8	68.5	58.9
Diversified Credit	36.0	1.1%	9.5%	3.4	39.4	32.6
Fixed Interest Gilts	49.8	1.6%	8.8%	4.4	54.2	45.5
Index-Linked Gilts	130.7	4.1%	11.5%	15.0	145.6	115.7
Overseas bonds	110.9	3.5%	8.6%	9.6	120.5	101.3
Cash	152.9	4.8%	1.0%	1.5	154.4	151.3
Uncorrelated	**3,189.2**	**100.0%**	**16.9%**	**537.6**	**3,726.8**	**2,651.5**
Including asset correlations	**3,189.2**		**13.7%**	**438.1**	**3,627.3**	**2,751.1**
Including asset & liability correlations	**3,189.2**		**14.8%**	**472.7**	**3,661.8**	**n/a**

18. Funding arrangements

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

The key elements of the funding policy are:

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

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

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

Employer contributions are made up of two elements:

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

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

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

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

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

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

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

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

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

Assumed Life Expectancy		**Last valuation 31 March 2017**	**This valuation 31 March 2020**
Male	Pensioners	21.2 years	**20.6 years**
	Non-Pensioners	22.7 years	**22.0 years**
Female	Pensioners	23.7 years	**23.2 years**
	Non-Pensioners	25.5 years	**25.2 years**

Commutation Assumption

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

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

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

An initial interim solution to this issue which became the permanent solution in 2021 was to pass the responsibility for the full inflation proofing of GMPs to pension schemes for members who reach state pension age after 5 April 2016.

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

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

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

More Information
The actuary has provided a statement describing the funding arrangements of the Fund during 2022/23. This can be found in Appendix 1 of this report.

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

19. Actuarial Present Value of Promised Retirement Benefits

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

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

	2021/22	**2022/23**
Present value of promised retirement benefits £m	**(3,900)**	**(2,667)**
Fair value of scheme assets (bid value) £m	**3,204**	**3,195**
Net (liability)/ asset £m	**(696)**	**528**

The Net Liability from 21-22 has become a net asset of £528m, this being the end result of an £1,233m reduction in present value of promised retirement benefits and small reduction in asset value of £9m at 31st of March 2023.This reflects the higher salary and inflation assumptions adopted by the actuary for 2022/23 IAS26 assessments.

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

IAS 19 Assumptions	**2021/22**	**2022/23**
Discount rate	2.7%	**4.75%**
Salary increase rate	3.8%	**3.55%**
Pension increase rate	3.2%	**2.95%**

20. Current Assets

	2021/22	2022/23
Short term debtors	£’000	**£’000**
Contributions due – employees	1,677	**2,020**
Contributions due – employers	6,122	**7,254**
Strain contribution (due within 1 year)	90	**54**
Sundry debtors	46	**43**
Prepayments	275	**336**
Falkirk Council	8	**-**
Total	8,217	**9,707**
Cash balances	8,592	**13,185**
Current assets	16,810	**22,892**

20a. Long-term debtors

	2021/22	2022/23
	£’000	**£’000**
Strain on fund contributions due in over 1 year	44	**87**

21. Current Liabilities

	2021/22	2022/23
	£’000	**£’000**
Benefits payable	(525)	**(918)**
Transfer values payable (leavers)	(214)	**(855)**
Sundry creditors	(1,713)	**(1,402)**
Falkirk Council	-	**(146)**
Total	(2,452)	**(3,321)**

22. Additional Voluntary Contributions

	2021/22	2022/23
	£’000	**£’000**
Standard Life	3,300	**3,172**
Prudential	6,844	**7,329**
Total	10,144	**10,501**

AVC contributions of £395k were paid directly to Standard Life (£376k in 2021/22) and £1,061k to Prudential (£1,589k in 2021/22).

23. Related Party Transactions

Falkirk Council
Falkirk Council Pension Fund is administered by Falkirk Council. Consequently, there is a strong relationship between the Fund and the Council.
The Council is the single largest employer of members of the Fund and contributed £31.4m to the Fund in 2022/23 (2021/22: £28.2m).

The Fund uses Council premises and systems, and these costs are charged to the Fund. In 2022/23 the Fund incurred a charge of £120k in respect of these costs (£120k in 2021/22). Transactions between the Council and the Fund are closely monitored with the aim of any balances being settled as soon as reasonably practicable. At 31 March 2023 the Pension Fund owed the Council £146k (the Council owed the Fund £9k in 2021/22) in respect of invoices authorised by 31st of March but paid in April 2023.The balance was transferred on the 7th of April 2023.

Governance
Two members of the Pensions Committee - D Macnaughtan, and J Flynn - are in receipt of LGPS benefits from the Fund. In addition, all remaining Committee members are active members of the Fund.

All members of the Pension Board are active members.

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

23a. Key Management Personnel

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

	2021/22	2022/23
	£'000	£'000
Short term-benefits	81	**105**
Post-employment benefits	343	**133**
Total	424	**238**

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

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

24. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2023 totalled £68m (31 March 2022 £70.5m).

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

At 31 March 2023 the Fund has no exposure to a contingent liability (£77k at 31 March 2022) related to potential abort costs in respect of Infrastructure projects with the Lothian Pension Fund. Contingent liabilities are not recognised in the net assets statement.

GMP Reconciliation

GMP Reconciliation is a national exercise to reconcile HM Revenue & Customs (HMRC) contracted out records with those of pension funds. This exercise was completed in October 2022 resulting in the records of 55 pensioners and 41 dependants being rectified. The tables below show the total aggregate over/underpayments for these members:

Underpaid Pensions	Pensioner	Dependant
Number of member's underpaid	12	5
Average % change to underpaid pensions	3.73%	**5.26%**
Largest % change to underpaid pensions	15.71%	**20.91%**
Total Historic Underpayment	£9,325	**£1,372**

Overpaid Pensions	Pensioner	Dependant
Number of member's underpaid	43	36
Average % change to underpaid pensions	(1.91%)	**(7.81%)**
Largest % change to underpaid pensions	(12.02%)	**(29.25%)**
Total Historic Overpayment	(£40,089)	**(£164,904)**

The Scottish Ministers legislated that any GMP related pension overpayments (arising due to incorrect GMPs being held) should not be recovered from pensioners. In consequence, the overpayments made have been written-off and increased pension entitlements granted to ensure the identified overpayment continues payment and is not recovered. The increased pension entitlements are fixed, so will not change, and are not inherited by survivors following a pensioner death.

Annual Governance Statement 2022/23

Fund Governance Framework

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

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

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

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

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

Scope of Responsibility

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

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

The Chief Finance Officer is responsible for arranging the proper administration of the financial affairs of the Fund, including the systems of internal control and the internal audit of the Fund's control environment so as to provide reasonable assurance on substantive matters such as funding, contributions, pension payments, investment management and data security.

Funding

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

Contributions and Pension Payments

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

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

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

Investment Management

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

Data Security

The Council's Information Governance framework exists to enable data to be securely managed. Staff undergo regular training on data security matters. Members are notified of the Fund's Privacy Notice at least once a year and Data Sharing Agreements are in place with employers and key service providers. Any new data provision is subject to a Data Impact Assessment signed off by the Council Information Governance Manager and Technology and Infrastructure Manager.

Control Environment

The Council is committed to the highest standards of openness, probity, and accountability. In line with that commitment, the Council, through its Whistleblowing

Policy, encourages employees and others who have serious concerns about any aspect of the Council's work to come forward without fear of victimisation, discrimination, or disadvantage. Pensions staff have attended a training session on Corporate Fraud and Whistleblowing.

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

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

The Fund maintains a Business Continuity Plan which was reviewed, updated and approved at the December 2022 Pensions Committee. The Fund also maintains a risk register which was reviewed, updated and approved at the March 2022 Pensions Committee. Committee has also approved a Fund Assurance Map (as endorsed by the Chartered Institute of Internal Auditors) to categorise, as follows, the various levels of risk controls:

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

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

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

The scale of Fund investments (c. £3.2bn) underlines the importance of a robust control environment being in place for investment managers. The main sources of assurance come from regular engagement with the managers and through annual assurance control reports from each of the managers' auditors. A similar report is also provided by the Custodian. Reference to the reports for 2022/23 are set out in the Risk Section of the Annual Report.

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

Monitoring and Review of Governance Arrangements
The Fund's governance arrangements are formally monitored via:
- the Pensions Committee and Board framework
- the Fund's Risk Management arrangements
- the Corporate Risk Management Group and other Corporate Working Groups
- the recording and monitoring of audit recommendations via the Council's system
- Internal Audit work as agreed annually with the Pensions Committee
- JISP annual review of its own effectiveness

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

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

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

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

The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Internal Audit Team, including annual self-assessment and periodic (5 yearly) external assessment of compliance with the Public Sector Internal Audit Standards. A detailed self-assessment against the Standards was undertaken during February 2022. This confirmed continuing compliance with the Standards, and will be subject to independent, external validation as part of a national review process established by the Scottish Local Authorities Chief Internal Auditors' Group.

All Internal Audit reports are issued to the relevant officers and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Internal Audit reports are always brought to the attention of the Pensions Committee and Pension Board, and any matters of significance highlighted and commented upon by management. During 2022/23, there were no matters of significance which required to be brought to the attention of the Committee and Board.

Audit Findings and Recommendations
During 2022/23, Internal Audit undertook a review of cyber security arrangements and sample tested a variety of transactions relating to pensions administration activities.

Internal Audit were able to provide Substantial Assurance in relation to the adequacy and effectiveness of the areas audited. The recommendations are summarised in table below:

	Item	Timescale	Responsible Person	Committee Approval Required	Completion Status
1	The Pensions Manager should ensure that the first line of defence measures on the Fund's Assurance Map are consistent with the mitigating controls from the Fund's Risk Register.	September 2023	Pensions Manager	Yes	
2	Obtain external sources of cyber security assurance.	April 2023	Pensions Manager	No	Complete

These recommendations were made in view of the potential for a cyber-attack and the arrangements, key roles and responsibilities arising in the event of an attack.

The findings have been reported to the Chief Finance Officer and the Director of Transformation, Communities & Corporate Services and was reported to the Pensions Committee and Pension Board in August 2022.

Service Delivery
During the pandemic, contingency measures were activated to protect the wellbeing of staff and to facilitate continuity of service provision with measures, such as a mix of home and office working being introduced. This style of hybrid working is now the norm and work practices and protocols for the authorisation of payments and documents are well embedded and very effective with the Fund continuing business as usual in a more flexible and resilient way. Building on this style of hybrid working a member self-service facility was implemented during 2022/23 to enable members to access their pension records through an online data portal called My Pension Online which enables members to update their basic details and access retirement modellers.

Asset Valuations and Funding
Markets have been severely disrupted since the onset of the pandemic which resulted in depressed asset values as at the funding valuation date. While asset values recovered very strongly in 2020 and 2021, the continuing war in Ukraine and the aftereffects of the September 2022 mini-budget has meant market values continue to be volatile resulting in the asset value as at 31 March 2023 remaining broadly the same as it was at 31 March 2022.

However, throughout the turbulence in the markets, the Fund has continued to be cash flow positive and under no pressure to sell assets. Assets themselves are well diversified and include Property, Bonds and Infrastructure all of which are income generative. The funding update of 31 March 2023 showing a funding level of 132% is testament to the resilience of the Fund.

The 2020 Valuation exercise afforded the opportunity for each employer's position in the Fund to be closely and independently examined and appropriate contribution rates applied. This will be reassessed during the 2023 Valuation exercise.

Oversight
2022/23 saw Committee and Board meetings move to blended attendance with Committee and Board members attending meetings in person or online, although two meetings were held solely online, due to loss of accommodation, while alternative accommodation was sought. Induction training for Committee and Board members has also been delivered in person or online. For 2023/24, it is intended that all Committee and Board meetings will accommodate blended attendance and training will be delivered as a mixture of online and in person events.

Long-Term Consequences
Whilst Covid-19 has moved from pandemic to endemic status, its economic effects are still apparent with soaring inflation and rising interest rates. This has been compounded by the war in Ukraine with its impact on energy security and food supplies. It is probable that these challenging financial conditions will continue throughout 2023. However, the Fund is comfortable that its diverse spread of investments coupled with the strong covenants of its sponsoring employers will enable it to operate satisfactorily until more benign conditions return.

The longevity of the pandemic and the rising cost of living mean we need to work in a more mobile and flexible manner. In consequence, hybrid working, where staff mix working from home with working in the office, is now an embedded feature of the modern workplace, bringing with it increased stability and resilience to operational activity.

Certification
This Annual Governance Statement summarises, openly and transparently, arrangements made by Falkirk Council Pension Fund for 2022/23 and for the period to the date of publication of these Accounts.

The statement makes reference to the overall governance framework of the Fund; the areas where responsibilities lie; and the wider control environment. This is complemented by the work of Internal Audit during the year.

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

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

It is our view that the contents of the statement demonstrate the adequacy and effectiveness of the governance arrangements in place during 2022/23 for the Pension Fund.

Lorna Binnie

Councillor Lorna Binnie
Chair of the Pensions Committee
08 December 2023

Kenneth Lawrie

Kenneth Lawrie
Chief Executive Falkirk Council
08 December 2023

Governance Compliance Statement

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

Principle A – Structure

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

the main committee is allocated for a member from the secondary committee or panel.		not appropriate for a Board member to also sit on the Committee.

Principle B – Representation

Requirement	**Level of Compliance**	**Arrangements in Place**
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: Employing authorities (including e.g. admission bodies); Scheme members (including deferred and pensioner scheme members)	Full Compliance	Representatives of fund employers, including an admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee Active, deferred and pensioner members are represented by Trade Union members who sit on the Pension Board. A Trade Union member also sits on the Pensions Committee. Pensioners are represented by a pensioner member who sits on the Committee.
Where appropriate, independent professional observers; and	Not Compliant	There are no independent professional observers of Committee or Board business. It is considered that: • the diversity of representation (employers, pensioner and Unions) • the Joint Investment Strategy Panel • the training arrangements; • the annual audit process; and • attendance of professional advisors provide robust and adequate scrutiny of pension fund business
Expert advisors (on an ad-hoc basis).	Full compliance	Support for the Pensions Committee and Pension Board is provided by specialists in the following areas: • actuarial and investment advisers • corporate governance advisers • investment managers and custodian
That where lay members sit on a main or secondary committee,	Full compliance	The co-opted members on the Pensions Committee and the

they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.		Pension Board all have equality of access to papers, meetings and training. The co-opted members also have full opportunity to contribute to the decision making process, including the right to vote.

Principle C – Selection and role of lay members

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

Principle D – Voting

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

Principle E – Training / Facility Time / Expenses

Requirement	Level of Compliance	Arrangements in Place
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	Full Compliance	The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pension Board members. Training is delivered in large

expenses in respect of members involved in the decision-making process.		part by addressing specific items at Committee and Board meetings and complemented by visits to Fund Managers, bespoke training events and attendance at industry seminars and conferences. Expenses incurred by Committee and Board members are met either by the Fund or the Falkirk Council scheme for payment of members' expenses.
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full Compliance	The Training Policy for the Pensions Committee and Pension Board applies uniformly to all members.
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Full Compliance	The Training Policy for the Pensions Committee and Pensions Board includes the requirement for members to undergo training needs analysis and the development of commensurate training plans. A register of training undertaken is maintained.

Principle F – Meetings (Frequency/Quorum)

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

Principle G – Access

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

Principle H – Scope

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

Principle I – Publicity

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

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

Appendix 1

Actuarial Statement for 2022/23

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

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which 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 70% chance that the Fund will return to full funding over 20 years.

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

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

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2020 valuation report.

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

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

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

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

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

	Males	Females
Current Pensioners	20.6 years	23.2 years
Future Pensioners*	22.0 years	25.2 years
*Currently aged 45		

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

Experience over the period since 31 March 2020
Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered very strongly in 2020 and 2021. Markets have continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation

due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

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

Julie West FFA

For and on behalf of Hymans Robertson LLP

12 May 2023

Appendix 2

Scheduled and Admission Bodies as at 31 March 2023

Scheduled bodies open to new members

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

Admission bodies

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

*No Fund liability remains with the employers in this group. With the exception of Falkirk Community Trust Ltd, either a cessation payment has been made, an exit credit returned or the three Councils in the Fund - Clackmannanshire, Falkirk, and Stirling Councils - have assumed responsibility for the Fund liabilities of these employers in return for being allocated their share of the Fund's assets. The liabilities for Falkirk Community Trust lie solely with Falkirk Council.

Appendix 3

Links to key documents

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

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

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

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

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

Governance Policy
Microsoft Word - Governance Policy and Compliance Statement.doc (falkirkpensionfund.org)

Conflict of Interest
Microsoft Word - Conflict of Interest Policy (falkirkpensionfund.org)