



Fife Council Pension Fund Annual Report 2010-11

SCHEME OF PENSIONS REGULATOR REGISTRATION NUMBER: 10038483

The Local Government Pension Scheme
administered by Fife Council

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INTRODUCTION

I am pleased to present Fife Council's Pension Fund Annual Report for the year ended 31 March 2011.

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

The last 12 months have been an interesting time in pensions. Major world events have had a huge impact on stock market volatility. At home, there have been changes in the reporting and auditing standards for local government pension funds which have prompted this new style stand alone report.

The Independent Public Services Commission, set up to undertake a 'fundamental, structural review of public service pensions', presented its final report (the Hutton Report), in March 2011. Comments were invited and Fife Council, as an administering authority, responded with views on the future of public sector pensions. You will find more on this subject later.

The Convention of Scottish Local Authorities (COSLA) sponsored project (Pathfinder), considering the potential efficiencies from consolidating funds and sharing services, has recognised that there are benefits in sharing expertise rather than combining funds. More information on the project can be found at :
www.cosla.gov.uk/search/node/pathfinder.

The coming years will bring many more challenges as we face budgetary constraints, combined with a reducing workforce and an ageing population. The next year will be a particularly busy one as we implement changes in systems and strategy as we continue to strive to improve services to members and employers.

I would like to thank all elected members and officers of the Council, for all their work during another challenging year.

Brian Livingston MBA CPFA
Executive Director
Finance and Resources

THE FUND AND HOW IT IS GOVERNED

The Fund

Fife Council has statutory responsibility for the administration of the Fife Council Pension Fund (the Fund). The Fund provides benefits under the Local Government Pension Scheme (LGPS), to Fife Council employees, elected members, and associated bodies.

The Fund has been built up with contributions made by employees, employers and investment returns. Pension benefits are paid out from the Fund to LGPS members.

Governance

Fife Council delegates all pension scheme matters to the Superannuation Fund and Pensions Sub-Committee.

The sub-committee comprises nine elected members of Fife Council; in addition 2 employee representatives are non-voting members of the sub-committee. The membership of the sub-committee at 31 March 2011 was:-

Cllr. Marilyn Whitehead (Chair)
Cllr. Tim Brett
Cllr. Kay Carrington
Cllr. Bobby Clelland
Cllr. Fiona Grant
Cllr. George Kay
Cllr. Arthur Robertson
Cllr. Andrew Rodger
Cllr. John Simpson
Plus 2 non-voting employee representatives

The sub-committee arranges for the supervision and administration of the Fund's investments and appointment of Fund Managers and also has regard to pension scheme administration matters.

In addition, the sub-committee has agreed the strategic direction for the Fund in its **Funding Strategy Statement**. The aims of the Fund are:-

- to ensure that sufficient resources are available to meet all liabilities as they fall due;
- to maximise the returns from investments within reasonable risk parameters;
- to ensure the long term solvency of the Fund; and

- to enable employer contributions to be kept as near constant as possible and at a reasonable cost to the taxpayers and admitted bodies, having regard to the liabilities of the Fund.

The full Funding Strategy Statement can be viewed at

www.fifedirect.org.uk/lgpspublications

Under the 2010 amendment regulations, the Fund is required to publish a Governance Compliance Statement detailing how it complies with best practice guidance issued by Scottish Ministers. The details of how the Fund complies with each requirement are included in Appendix A.

Fund Actuary

Following a tendering process during the year, Hymans Robertson was reappointed as Actuary to the Fund.

MEMBERSHIP OF THE FUND

Membership of the Fund comprises employees and pensioners of Fife Council and other participating employers. The Fund is also open to elected members of the Council.

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

The list of participating employers is as follows:-

Scheduled Bodies

Fife Council
Adam Smith College
Carnegie College
Elmwood College
SPSA Police College
Visit Scotland

Admitted Bodies

Arts and Theatre Trust Fife
Byre Theatre
Citizens Advice and Rights Fife
Drug and Alcohol Project Ltd
East Scotland European Partnership
Fife Alcohol Support Service
Fife Coast and Countryside Trust
Fife Forth Valley Community Justice Authority
Fife Gingerbread
Fife Historic Buildings Trust
Fife Housing Association Ltd
Fife Intensive Rehabilitation and Substance Misuse Team(FIRST)
Fife Sports and Leisure Trust
FRAE Fife
Fife Sports for Disabled
Forth & Oban
Fife Women's Aid
Home-Start Levenmouth
Impact 21 (formerly Small Business Gateway)
St Andrews Links Trust
Clued Up Project
Volunteer Centre Fife

The total Fund membership at 31 March 2011 is made up as follows:

Active Members	15,036
Deferred Members*	5,072
Pensioners/Dependants	8,755

* Deferred members no longer actively contribute to the Fund either because they have left employment or have opted out of the LGPS. However, they have chosen to keep their benefits in the Fund. Their benefits are payable from age 60.

There were no new Scheduled or Admitted Bodies joining the Pension Fund, or bulk transfers in or out of the Fund during 2010-11.

WORKING WITH MEMBERS AND EMPLOYERS

The Team

Fife Council's Payroll/Pensions Team provides a pensions service to the members and employers of the Fund.

It has been a particularly busy year for staff. In addition to normal workloads, they have been heavily involved in processing redundancy quotes for the Council's Workforce Change project. The team also provided data for the Hutton Report and the Pathfinder project.

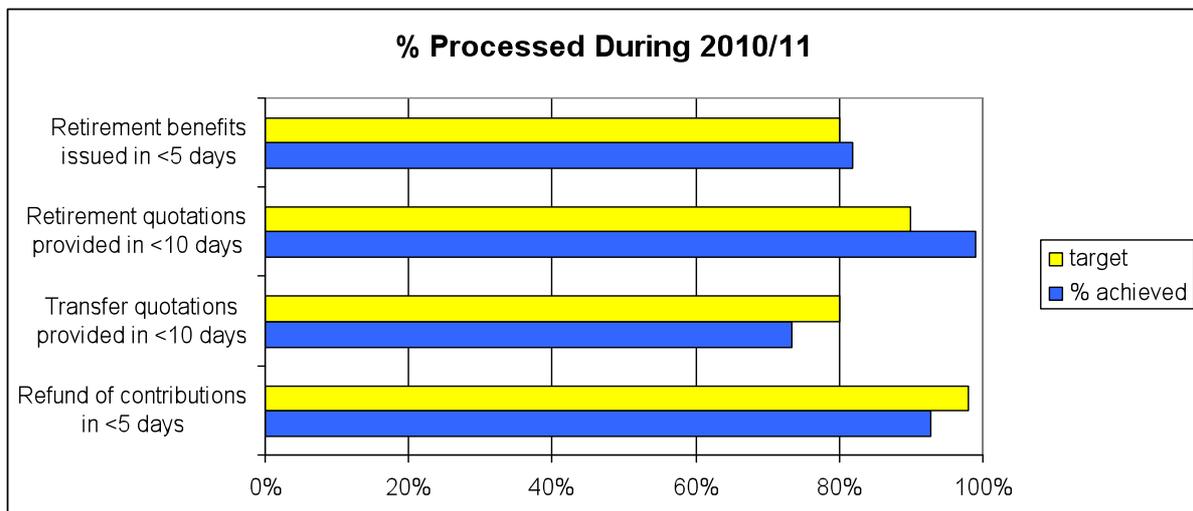
Staff training needs are assessed on an ongoing basis to ensure that a quality service is provided to members and employers. Staff are encouraged to obtain a recognised professional pension qualification through the Chartered Institute of Payroll and Pensions.

Administration Performance

Key performance indicators are provided quarterly to management and, on an annual basis, to employers.

Performance in 2010-11 overall was good, with targets being met in respect of processing estimates and payment of pension benefits. However, steps are continually taken to review and improve particularly in areas where budgets are not being met.

Performance Chart



Internal Dispute Resolution Cases

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

Communications

Continuous improvement in communications with employees and employers is recognised as an essential tool to promote understanding and awareness of the benefit of having a pension and joining the Fund.

A pensions mini website has been set up on the Council's internet. It can be viewed on www.fifedirect.org.uk/lgps. A library of literature including guides and forms can be accessed and downloaded as required.

Regular newsletters are sent to members, deferred members, pensioners and dependants. An employers' bulletin is issued annually. In addition, an Annual Employers' Forum is held in the spring of each year. The 2011 event was well attended and featured presentations from the Payroll/Pensions Team and the Fund's Actuary.

Presentations are also offered, on request, by the Payroll/Pensions Team, for employees, outlining the features and benefits of membership.

Improved Efficiency through IT Development

A project was initiated in 2009-10 to look at upgrading the pensions administration system to one that is web based.

An enhanced system is currently being implemented which will:-

- provide a full disaster recovery service
- assist with future plans for home working for staff, a Council initiative to reduce costs
- allow future access for members and employers
- offer opportunities to work collaboratively with others
- integrate with the pensioner payroll.

Currently the pensions administration system and pensioner payroll stand alone. Integrating of systems will result in increased efficiency and lower costs.

Additional Voluntary Contribution (AVC) Providers

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

A review of the Fund's AVC providers was carried out during the year.

This has resulted in:

- Standard Life remaining as a provider
- Prudential being appointed as a second provider
- Clerical Medical and Equitable Life - no new admissions.

THE PENSION YEAR

2010 Emergency Budget and Pension Increases

In the June 2010 Budget the UK Government announced that from April 2011, the index for increasing public sector pensions would change from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). Based on previous trends this will effectively reduce employer liabilities by limiting future increases in members' pensions.

Pension Taxation Relief

On 14 October 2010, the Government announced changes to the tax limits applying to pensions:-

- the Annual Allowance currently £255,000, will reduce to £50,000 from April 2011.
- the Lifetime Allowance currently £1.8 million, will reduce to £1.5 million from April 2012.

Review of Public Sector Pensions

The Government invited Lord Hutton to chair the Independent Public Services Commission set up to undertake a 'fundamental, structural review of public service pensions'. Fife Council responded to Lord Hutton's call for evidence for the Commission's final report. The Commission published its final report on 10 March 2011.

The main recommendations are to:-

- replace final salary schemes with career average schemes whilst protecting benefits already built up;
- link the Scheme retirement age with state pension age;
- keep the Local Government Pension Scheme a funded scheme i.e. one which has a pot of assets from which pensions are paid, rather than a "pay as you go" scheme.

The Government has recently announced that it accepts the recommendations as a basis for consultation. Any scheme redesign will follow a full consultation process and Lord Hutton believes it is possible to introduce changes before the end of this Parliament in 2015 with proposals due in the autumn of 2011.

Employee Pension Contribution Increase

The Government confirmed in its 23 March 2011 Budget, that member contributions in the current public service schemes would have to increase, on average, by 3.2% over a 3 year period from April 2012. There is concern that this may adversely impact on pension funds through reduced employee take up.

INVESTMENT MANAGEMENT ARRANGEMENTS

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

The Statement of Investment Principles (SIP) (Appendix B) and the Fund's Funding Strategy Statement give more information on the Fund's investment framework. The full Funding Strategy Statement can be viewed at www.fifedirect.org.uk/lgpspublications

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

The Total Fund strategic benchmark from 1 January 2007, as detailed below, aims to achieve a real return above inflation of 1.85% gross. This will be revised in 2011-12 to reflect the new mandates referred to on page 18.

Asset Class	Allocation %	Benchmark
UK Equities	35	FTSE All Share
Overseas Equities	35	MSCI World
Bonds	20	Customised
Property	10	IPD All Property Trusts
Cash	0	30 Day LIBID
Total	100	Customised

Seven investment managers were in place throughout the year, with an eighth, Partners Group, being appointed and funded in March 2011. Managers are delegated the responsibility to invest the assets of the Fund in accordance with agreed mandates. The managers are:-

Manager	Mandate	
BlackRock	UK Equities	Passive
Alliance Bernstein	Global Equities	
Baillie Gifford	Global Equities	Unconstrained*
Lazard Asset Management	Global Equities	Unconstrained*
Henderson Investors	Bonds	
Western Asset Management	Bonds	
ING Real Estate	Property	
Partners Group	Infrastructure	

* unconstrained – permitted to invest in any global equity

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

MARKET COMMENTARY

2010-11 was another challenging year in the financial markets.

The quarter ended 30 June 2010 saw all equity markets fall during the last 3 weeks, with the FTSE 100 returning -12.6% over this period. The US stock market, the S & P 500, suffered its worst May since 1962. Two major headlines dominated in this period, the failure of the UK General Election to deliver an outright majority and the BP Deepwater Horizon oil rig tragedy in the Gulf of Mexico. There was an emergency budget in the UK, late in the quarter, and there was widespread concern about the world economies as leading indicators declined and suggested that the second half of 2010 would see a severe weakening in the pace of economic recovery. The quarter ended on more worrying news from the manufacturing sectors of China and the US, plus there was disappointing figures from the US on employment and home sales.

Quarter three (to 30 September) 2010, ended with a surge in stock markets to regain the value lost in the previous quarter. There was speculation in the quarter that we might see a second round of quantitative easing led by the US Federal Reserve and markets continued to be concerned about the health of economies in the Eurozone as further damning data emerged regarding sovereign debt. Inflationary pressures remained generally weak. The FTSE 100 in the quarter returned +13.8%, recovering more than the previous quarters fall. Japan posted the weakest results by far over this period, following a relatively strong first six months of 2010. In the UK, the pending Government Spending Review in October hung over business as details of the £83bn public spending cuts were awaited.

2010 finished on a strong quarter and, although all equity indices delivered positive returns for the year, they were not as strong as 2009. Global growth was +3.9% for the year and lessened the fears of a double dip. The World Bank estimated global growth for 2011 to be +3.3%. UK domestic demand proved stronger than expected over 2010, despite higher taxes. However, this sentiment faltered towards the end of the year as VAT increased. The jobs market showed signs of recovery with the number of vacancies rising, however half a million public sector jobs are due to be cut over the next 4 years, with the same predicted for the private sector. The US economy remained under pressure, but better news saw US corporations posting record fourth quarter results as Apple Inc and companies across sectors saw increased demand. The US \$ was a strong performer during the quarter as investors sought a safe haven from the uncertainties of the Eurozone, whilst the UK £ came under pressure as fears for the UK economy resurfaced.

The first quarter of 2011 saw a series of world altering events – Japan's biggest ever earthquake, 10 metre tsunami and nuclear meltdown; there was revolution throughout the Middle East and Africa; and Portugal was the latest sovereign entity likely to be forced into a bailout from the EU. Oil and gas stocks produced the strongest gains, whilst consumer goods and services tended to under perform. The Bank of England continued to hold the base rate at 0.5%, although the minutes of the Monetary Policy Committee meeting in March noted the case for an increase had strengthened. The slow and faltering recovery of western economies was, in general, halting growth in emerging markets. However, the Brazilian economy overtook Britain and France to become the world's fifth largest.

PERFORMANCE COMMENTARY

The Fund has faced challenging times with unprecedented events and market conditions, some of which were mentioned in the market commentary.

Below are the key points on performance showing relative return;

- The Total Plan underperformed the benchmark over the one year by -1.09% in relative terms.
- Underperformance has also been recorded over the last three and five year periods.
- However, the total plan only trails the benchmark since inception (30th June 2003) by -0.36% per annum.
- Baillie Gifford had another good year outperforming its benchmark by +8.51% in relative terms.
- Alliance Bernstein underperformed by -4.05% over the last 12 months, however since remedial steps have been taken and a changed mandate put in place, there has been positive performance in six of the last nine months.
- Lazards has underperformed over the last twelve months by -1.70%, losing some of the outstanding performance of previous years.
- The Fixed Income managers, Hendersons and Western were broadly neutral over the one year.
- ING Property underperformed in the year but leads its benchmark over the longer 3 year term, by +5.03%, property being a very long-term investment.
- The Fund value is currently at its highest recorded point of £1.3bn, having recovered from the fall in markets a year ago. It should be noted that some markets have still to recover this lost ground.
- Partners Group, the Fund's new infrastructure manager, was funded with their first drawdown of £9m in mid March 2011. It is too early to measure performance.

Continued underperformance by Alliance Bernstein, despite meetings with the managers, led to the commencement of a review of Fund strategy early in 2010. Hymans Robertson, Investment Consultants were appointed to support the sub-committee during this process. Early in the review process, it was recognised that the high level of equities, 70%, exposed the Fund to the risk of volatility which it reflected during 2008-09. It was agreed that the current strategic allocation of 70% equity, 20% bonds and 10% property needed to be altered.

The intended revised strategic allocation, from 2011-12 onwards is:-

- 55% equities
- 20% bonds
- 10% property
- 10% absolute return**
- 5% infrastructure***.

** absolute return funds – a multi asset mix of investments with the aim of producing returns better than cash

*** infrastructure funds – a fund investing in a mixture of large projects which typically generate a steady income flow.

During the second half of 2010, the Fund entered a transition period, reflecting the change in strategy. It commenced with £61m of assets being transferred, as an interim position, to BlackRock from Alliance for investment in their UK Passive Product. The intention of the subsequent move from equities into infrastructure and absolute returns, is to reduce the risk and volatility associated with equity type investments, whilst maintaining their return profile.

From 1st July 2010, the Alliance benchmark changed to 100% MSCI All Countries World Index to reflect a change in their mandate and to remove the constraints of a customised benchmark.

Partners Group has been appointed to manage the infrastructure mandate, with funds being drawn down over an extended period. The first tranche of £9m was paid in March 2011.

Standard Life and Baillie Gifford have been appointed to manage absolute return mandates. The final strategy is currently being implemented and is expected to be completed by the end of June 2011.

ACTUARIAL STATEMENT

The 2010-11 statement has been prepared in accordance with Regulation 31A of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010-11.

Description of Funding Policy

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

- to ensure that sufficient resources are available to meet all liabilities as they fall due;
- to maximise the returns from investments within reasonable risk parameters;
- to ensure the long term solvency of the Fund; and
- to enable employer contributions to be kept as nearly constant as possible and at a reasonable cost to the taxpayers and admitted bodies having regard to the liabilities.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 20 years.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2008. This valuation revealed that the Fund's assets, which at 31 March 2008 were valued at £1,063 million, were sufficient to meet 81% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2008 valuation was £254 million.

Individual employers' contributions for the period 1 April 2009 to 31 March 2012 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 our valuation report dated 27 March 2009.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2008 valuation were as follows:

Financial assumptions	31 March 2008	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.5%
Pay increases *	5.1%	1.5%
Price inflation/Pension increases	3.6%	-

* plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PXA92 year of birth mortality tables. Age ratings have been applied based on the membership profile. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.7 years	23.8 years
Future Pensioners	22.0 years	25.0 years

Copies of the 2008 valuation report and Funding Strategy Statement are available on request from Fife Council, Administering Authority to the Fund.

The next actuarial valuation will be carried out as at 31 March 2011. The Funding Strategy Statement will also be reviewed at that time.



Geoffrey Nathan FFA

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

23 June 2011

Hymans Robertson LLP

20 Waterloo Street

Glasgow

G2 6DB

THE PENSION FUND ACCOUNTS

Fife Council are Trustees for the Fife Council Pension Fund (the "Fund") covering employees, elected members and pensioners of Fife Council and employees of a number of scheduled and admitted bodies.

The Fund is a pool into which employees' and employers' contributions, interest and dividends from investments are paid and from which pensions, lump sums and other pension benefits are paid out. The transfer of the value of employee's pensions in and out of the Fund is reflected in the accounts in the year in which it is paid.

The Local Government Pension Scheme, established under the Superannuation Act 1972, is a statutory scheme and is contracted out of the State Second Pension Scheme (S2P). It is open to all employees of scheduled bodies except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the scheme subject to their individual admission criteria.

There were no new Scheduled or Admitted Bodies joining the Pension Fund, or bulk transfers in or out of the Fund during 2010-11.

There are six scheduled bodies;

Fife Council	Elmwood College
Adam Smith College	Visit Scotland
SPSA Police College	Carnegie College

There are twenty two admitted bodies;

St Andrews Links Trust	Volunteer Centre Fife
Fife Alcohol Support Service	Fife Housing Association Ltd
Byre Theatre	East Scotland European Partnership
Home-Start Levenmouth	Fife Gingerbread
FRAE Fife	Fife Women's Aid (formerly Dunfermline & Kirkcaldy)
Impact 21	Citizens Advice and Rights Fife
Clued Up Project	Drug and Alcohol Project Limited
Fife Sports for Disabled	Fife Historic Buildings Trust
Forth & Oban	Fife Intensive Rehabilitation and Substance Misuse Team (FIRST)
Arts and Theatres Trust Fife	Fife Forth Valley Community Justice Authority
Fife Sports and Leisure Trust	Fife Coast and Countryside Trust

Funding Policy of the Scheme

Fife Council has prepared a Funding Strategy Statement (FSS) in consultation with the Fund employers. The FSS has been reviewed as part of the 2008 triennial valuation of the Fund.

The aims of the Fund's Funding Policy are;

- to ensure that sufficient resources are available to meet all liabilities as they fall due;
- to maximise the returns from investments within reasonable risk parameters;
- to ensure the long term solvency of the Fund; and

- to enable employer contributions to be kept as near constant as possible and at a reasonable cost to the taxpayers and admitted bodies, having regard to the liabilities of the Fund.

In broad terms, the long-term funding objectives remained unchanged. However, additional rules were introduced to help stabilise contribution rates for the major employers in the Fund limiting increases and decreases to 15% of employees' contributions per annum. The stabilisation policy will be considered at each triennial valuation and subject to future review. Employers will however be given three years notice to any change in the policy which, in effect, ensures that there will be greater certainty in employer contribution payments.

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

The Administering Authorities Responsibilities

The authority is required:

- To make arrangements for the proper administration of the financial affairs of the Pension Fund in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director Finance and Resources;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

Responsibilities of the Executive Director Finance and Resources

The Executive Director Finance and Resources is responsible for the preparation of the statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present a true and fair view of the financial position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2011.

In preparing this statement of accounts, the Executive Director Finance and Resources has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice, except where stated in the Statement of Accounting Policies and Notes to the Accounts.

The Executive Director Finance and Resources has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

These accounts present a true and fair view of the financial position of the Pension Fund at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Brian Livingston MBA CPFA
Executive Director Finance and Resources
1 November 2011

THE PENSION FUND ACCOUNTS

2009-10	Fund Account	2010-11			Total
		Fife Council £m	Scheduled Bodies £m	Admitted Bodies £m	
	Contributions and benefits:				
	Contributions receivable:				
(48.754)	from employers - Normal	(46.174)	(2.931)	(3.109)	(52.214)
(1.457)	- Augmentation	(3.657)	(0.071)	(0.000)	(3.728)
(17.049)	from employees/members	(15.878)	(0.985)	(0.973)	(17.836)
(3.956)	Transfers from Other Schemes - Individuals				(2.426)
(71.216)	Total Income				(76.204)
	Benefits Payable:				
32.678	Pensions Payable	33.159	0.690	0.452	34.301
10.827	Lump Sum Retirement Benefits	13.935	0.329	0.255	14.519
1.458	Lump Sum Death Benefits	0.916	0.026	0.140	1.082
44.963		48.010	1.045	0.847	49.902
	Payments to and on account of leavers:				
0.143	Refunds of Contributions				0.164
0.056	State Scheme Premiums				0.069
3.650	Transfers to Other Schemes - Individuals				2.843
0.945	Administrative and other expenses borne by the scheme				1.148
49.757	Total Expenditure				54.126
(21.459)	Net (additions)/withdrawals from dealings with members				(22.078)
	Returns on investments				
(23.887)	Investment income				(24.452)
(290.989)	Change in market value of investments (realised and unrealised)				(67.699)
0.642	Tax suffered not recoverable				0.531
5.494	Investment management expenses				4.912
(308.740)	Net Returns on investments				(86.708)
(330.199)	Net (Increase)/Decrease in the fund during the year				(108.786)
843.952	Opening net assets of the scheme at 1 April 2010				1,174.151
330.199	Net Increase/(Decrease) in the fund during the year				108.786
1,174.151	Closing net assets of the scheme at 31 March 2011				1,282.937

THE PENSION FUND ACCOUNTS

2009-10	Net Assets Statement as at 31 March 2011		2010-11		
£m			UK £m	Overseas £m	Total £m
	Investments Assets				
29.915	Fixed Interest Securities	- Public Sector	26.854	10.734	37.588
47.111		- Other	29.930	20.593	50.523
560.504	Equities	- Quoted	41.435	498.356	539.791
23.121	Index Linked Securities	- Public Sector	22.155	0.000	22.155
2.544		- Other	1.227	0.000	1.227
109.571	Pooled Investment Vehicles	-Unit Trusts (Property)	123.919	8.912	132.831
130.010		-Unit Trusts (Other-Quoted)	121.300	3.111	124.411
8.571		-Other Managed Funds (Property)	9.055	2.849	11.904
227.872		-Managed Insurance Fund	320.439	0.000	320.439
(36.810)	Derivative Contracts		(14.061)	(2.030)	(16.091)
26.384	Cash Deposits		29.335	2.731	32.066
2.542	Other Investments		0.000	3.088	3.088
	Investment Liabilities				
36.815	Derivative Contracts - Liability		14.061	2.030	16.091
1,168.150			725.649	550.374	1,276.023
	Current Assets				
0.449	Contributions due from Employers			0.457	
4.898	Cash balances with Fife Council			8.959	
3.971	Other current assets			3.882	13.298
	Current Liabilities				
(1.989)	Unpaid Benefits			(5.273)	
(1.328)	Other current liabilities			(1.111)	(6.384)
6.001	Net Current Assets and Liabilities				6.914
1,174.151	Net assets of the scheme available to fund benefits at 31 March 2011				1,282.937

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 1 November 2011.

Brian Livingston MBA CPFA
Executive Director, Finance and Resources
1 November 2011

NOTES TO THE PENSION FUND ACCOUNTS

1 STATEMENT OF ACCOUNTING POLICIES

1.1 GENERAL

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11, (the Code) which incorporates the International Financial Reporting Standards for the first time, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for pension funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2007, such as the format of the accounting statements.

1.2 ACCRUALS

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

1.3 VALUATION OF INVESTMENTS

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

1.4 FOREIGN CURRENCY TRANSACTIONS

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

1.5 CONTRIBUTIONS AND BENEFITS

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

1.6 TRANSFER VALUES

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

1.7 INVESTMENT INCOME

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

1.8 ADMINISTRATIVE EXPENSES AND INVESTMENT MANAGEMENT EXPENSES

Administrative expenses and investment management expenses are met by the Fund directly on a negotiated basis and accrued in full each year.

2 ACTUARIAL VALUATIONS

Employees' contributions are fixed by statute and employers' basic contributions are assessed every three years by an actuary. The Fund's actuary is Hymans Robertson. The employers' contributions are calculated to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

The last valuation was carried out as at 31 March 2008 and at this date the Fund had a deficit of £254.000m representing assets of market value of £1,063.000m and liabilities of £1,317.000m. The level of funding in percentage terms was 81% for the Fund. The Fund is valued every three years by the actuary and in view of the material deficit that exists the actuary considered the level of increased employers contribution that are required to reach full funding of the scheme. The valuation has taken account of several changes to the benefit structure of the scheme since the previous valuation as at 31 March 2005 (both those implemented before the 2008 valuation date and those introduced from 1 April 2009).

Adjustments have been made to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers and the minimum level of contributions for each employer is detailed in the report. For Fife Council, employer contribution rates have been limited to 15% of employees' contributions per annum in order to maintain the stability of employer contributions and dampen down short term market volatility. Whilst this would not result in a significantly worse long term outcome for the funding level it does provide greater budgeting certainty for the Council. It was therefore recommended that the employers contribution rate increase from the 285% (of employees' contributions) effective during the year ended 31 March 2008 to 290% with effect from 1 April 2009 to 300% with effect from 1 April 2010 and to 315% with effect from 1 April 2011. The 2011 triennial valuation is underway and will review the current stabilisation policy and set contribution rates for three years from 1 April 2012.

Any new employers or admission bodies joining the Fund are to be referred to the Actuaries for individual calculation as to the required level of contribution. They should also agree to pay the capital costs (as a one-off lump sum payment) of any early retirements or augmentation based on the Actuaries advice and using methods and factors issued by them from time to time, together with any additional contributions that may be required if their ill-health early retirement experience is worse than assumed.

3 ACTUARIAL METHOD USED / MAIN ASSUMPTIONS

The estimated cost of benefits accruing to existing employee members over the year following the valuation date is calculated allowing for all expected future pay and pension increases. The amount is expressed as a percentage of the members' pensionable pay over the year following the valuation date and is known as the 'future service contribution rate'.

The method of assessing the future contribution requirement is applied only to the fund membership at the valuation date. If new entrants are admitted to the Fund to the extent that the membership profile remains broadly unchanged (and if the actuarial assumptions are unchanged) then the future service contribution rate assessed at future valuations should be reasonably stable. However, if the average age of employee members rises (for example if few or no entrants are admitted to the Fund), and if the actuarial assumptions are unchanged, then the future service contribution rate will increase. This funding method is known as the Projected Unit Method and this is the main method used. For three of the scheduled and admitted bodies the attained age method was used within the valuation, as entry to the Fund had been closed to new members. The principal assumptions which have been used are annual rate of price inflation of 3.6%, annual rate of pensions increases of 3.6%, annual rate of increase for deferred pensioners of 3.6%, annual rate of price increases of 5.1%, discount rate of 6.1% and expenses of 0.4%.

4 FUND INVESTMENTS

The market value of the assets of the Fund continues to grow to its highest ever value, recording an increase of over 9% in the year, the total value of the Fund at the end of March 2011 being £1,282.937m. However, the Fund underperformed the benchmark over the 12 months to March 2011 by -1.09% in relative terms but over the longer term the Total Plan trails the benchmark since inception (30 June 2003) by only -0.36% per annum. A review of the Fund strategy and investment management arrangements was completed during 2010-11 and revised arrangements are now in place. Further details on both market and fund performance and the new arrangements can be found on pages 15 to 18 of this Annual Report.

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

	Value at 1 April 2010 £m	Purchases (at cost) and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Unrealised Change in Market Value £m	Movement in Cash Deposits	Value at 31 March 2011 £m
Fixed interest securities	77.026	296.185	(284.335)	(0.765)	0.000	88.111
Equities	560.504	206.110	(171.535)	(55.288)	0.000	539.791
Index-linked securities	25.665	11.950	(15.220)	0.988	0.000	23.383
Pooled investment vehicles	476.024	41.338	(20.314)	92.536	0.000	589.584
Derivative contracts - Assets	(36.810)	0.058	(0.033)	20.694	0.000	(16.091)
Derivative contracts - Liabilities	36.815	0.000	0.000	(20.724)	0.000	16.091
	1,139.224	555.641	(491.437)	37.441	0.000	1,240.869
Cash deposits	26.384	0.000	0.000	0.000	5.682	32.066
Other investment balances	2.542	0.000	0.000	0.546	0.000	3.088
Total Investment Assets	1,168.150	555.641	(491.437)	37.987	5.682	1,276.023

Included in Equities above is Aquila Life UK Equity Index Fund valued at £317.425m at close of accounts. This exceeds 5% of the total value of net assets and is managed by BlackRock Investment Management (UK) Ltd.

Details of derivative contracts held at 31 March 2011 are summarised overleaf:-

Derivative Contract	Settlement Date	Economic Exposure	
		Assets £m	Liabilities £m
Cash and Cash Equivalent - Margined Options			
Equity Futures			
EURX E-STXX 50	June 2011	1.132	(1.132)
Fixed Income Futures			
EURX EUR-BUND	June 2011	(1.074)	1.074
TSE 10Y JGB	June 2011	2.101	(2.101)
LIF LONG GILT	June 2011	(14.060)	14.060
10 YR TREASURY NOTES	June 2011	(3.342)	3.342
CBT UL Treasury Bonds	June 2011	(0.848)	0.848
		(16.091)	16.091

The economic exposure represents the notional value of securities purchased under the future contract and therefore the value subject to market movements. All futures contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction and/or interest rate exposure.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.489m (2009-10, £0.737m). In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles, the amount of any such costs is not separately provided to the Fund.

At 31 March 2011, £42.000m (2009-10, £47.600m) of stock was released to a third party under a stock lending agreement. The related collateral held to cover the lending were in the form of Equities and Government Securities.

5 FUND MANAGEMENT

The managers of the Fund are Alliance Bernstein, Western Asset Management, Blackrock Investment Management (UK) Limited (formerly Barclays Global Investors) (all appointed 2003), ING Real Estate (appointed 2004), Baillie Gifford, Lazard Asset Management and Henderson Global Investors (all appointed 2007). Towards the end of the financial year funds were placed with Partners Group who were appointed to manage the infrastructure mandate. A residual portfolio of Venture Capital funds is also held with a market value of £0.740m (2009-10, £0.708m).

The target strategic allocation for the Fund during 2010-11 was as follows; Equities 55%, Bonds 20%, Property 10%, Absolute Return 10% and Infrastructure 5%. This will be revised during 2011-12.

The market value of the investments at 31 March 2011 at bid price is analysed by Fund Manager and Mandate as follows:-

2009-10		Manager	Mandate	2010-11	
£m	%			£m	%
Equities					
225	19.2	Blackrock Investment Management (UK) Limited	UK Equities - Passive	317	24.7
274	23.3	Alliance Bernstein	Global Equities	212	16.5
132	11.3	Baillie Gifford	Global Equities-Unconstrained	154	12.0
203	17.3	Lazard Asset Management	Global Equities-Unconstrained	214	16.7
834	71.1	Total Equities		897	69.9
Bonds					
106	9.0	Western Asset Management	Global Bonds	111	8.6
95	8.2	Henderson Global Investors	Global Bonds	101	7.9
201	17.2	Total Bonds		212	16.5
Infrastructure					
0	0.0	Partners Group	Infrastructure	9	0.7
12	1.0	Standard Life Money Market Fund		16	1.3
Property					
122	10.5	ING Real Estate	UK and European Property	143	11.1
5	0.2	Fife Council (including Venture Funds)		6	0.5
1,174	100.0	Total Net Assets		1,283	100.0

Management Fees are 0.34% (2009-10, 0.47%) of the Market Value of the Assets of the Fund. All investments placed with Fund Managers as detailed above are quoted investments with the exception of the investment placed with Partners Group which is unquoted.

6 INVESTMENT INCOME

Investment income received in the year totalling £24.452m is analysed as follows:-

2009-10			2010-11	
£m			£m	
4.135		Interest from fixed interest securities	4.016	
12.864		Dividends from equities	10.963	
0.453		Income from index-linked securities	0.494	
6.403		Income from pooled investment vehicles	8.386	
(0.348)		Interest on cash deposits	0.231	
0.380		Other	0.362	
23.887			24.452	

7 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

As a result of adopting International Accounting Standard (IAS) 26, the Code requires that the present value of promised retirement benefits be disclosed. This is an equivalent calculation to that which employers are required to show in their own accounts as to their future liability to pay pensions earned at the balance sheet date in accordance with IAS19. It is essentially a snapshot which captures the liability at a specific point in time only and should not be used for comparing against liability measures on a funding basis.

	31 March 2011	31 March 2010
	£m	£m
Present Value of Promised Retirement Benefits	1,701.000	1,904.000

This valuation has been calculated by the Fund's actuary, Hymans Robertson. Liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2008, with no allowance for future unfunded benefits. In calculating the liability there are two main sets of assumptions used, financial assumptions and the assumptions on the mortality of scheme members. The main financial assumptions used were; the rate for inflation and pension increases was 2.8% (2009-10, 3.8%) salary increases set at 1% for the first two years with a subsequent rate of 5.1% (2009-10, 5.3%) and a discount rate of 5.5% (2009-10, 5.5%). The mortality assumptions used for both 2010-11 and 2009-10 calculations are based on widely used PFA92 and PMA92 mortality tables. The average future life expectancies at age 65 for current pensioners are 20.7 years for males and 23.8 years for females and for future pensioners this increases to 22 years for males and 25 years for females.

8 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC INVESTMENTS)

In accordance with Pension Fund regulations, AVC investments are invested separately from the Pension Fund in the form of individual accounts and policies securing additional benefits for those members electing to pay additional voluntary contributions. Members participating in this scheme receive an annual statement confirming the amounts held in their AVC account and the movements in the year. These investments are not contained within the Pension Fund accounts but for information the aggregate amounts, which are invested by third parties, are listed below;

2009-10	Fund Value		2010-11	Fund Value	
Contributions	31st March	2010	Contributions	31st March	2011
£m	£m	£m	£m	£m	£m
0.119	1.001	Standard Life	0.164	1.224	
0.029	0.408	Clerical Medical	0.015	0.304	
0.002	0.322	Equitable Life	0.001	0.272	
0.006	0.106	Prudential	0.078	0.180	
0.156	1.837		0.258	1.980	

In addition to the employee contributions shown in the above table there were significant net transfers in and out of the schemes during the year, being £0.118m (2009-10 £0.014m) net transferred into the Standard Life scheme, £0.152m (2009-10, £0.055m) net transferred out of the Clerical Medical Scheme.

9 RELATED PARTY TRANSACTIONS

Fife Council, the administering authority of the Fund also provides support services for the Fund and in 2010-11 charged £0.966m, (2009-10, £0.876m) for those services.

During 2010-11, the Fund had an average balance of £6.451m (2009-10, £4.683m) cash deposited with Fife Council. The Council paid the Fund £0.027m (2009-10, £0.019m) in interest on this balance. At the Balance Sheet date the Council owed the Fund £8.959m, (2009-10, £4.898m).

Fife Council paid employers contributions to the Pension Fund of £49.831m (2009-10, £44.144m) and collected and paid over employees contributions of £15.878m (2009-10, £15.124m).

10 CONTRIBUTORS AND PENSIONERS

Contributors	2009-10			2010-11		
	Pensioners	Total		Contributors	Pensioners	Total
13,958	8,066	22,024	Fife Council	13,608	8,434	22,042
1,479	280	1,759	Scheduled and Admitted Bodies	1,428	321	1,749
15,437	8,346	23,783		15,036	8,755	23,791

The total number of members of the pension scheme has remained broadly the same during 2010-11, however the number of pensioners has increased by approximately 400 members with a consequent reduction in the number of contributors as staff numbers within employing organisations are declining due to increasing pressure to make efficiencies.

11 STATEMENT OF INVESTMENT PRINCIPLES

A Statement of Investment Principles has been prepared in accordance with The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) regulations 1998, as amended. This statement, which was last updated in February 2010, is provided to the Fund's investment managers, who are required to follow the principles that it sets out, and to report showing how they have done so. The Statement can be found at Appendix B on page 41.

AUDITOR'S REPORT

Independent auditor's report to the members of Fife Council as administering body for Fife Council Pension Fund and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Fife Council Pension Fund for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

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 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Executive Director of Finance and Resources and auditor

As explained more fully in the Statement of Responsibilities set out on page 23, the Executive Director of Finance and Resources is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the financial transactions of the fund during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities;

- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion the information given in the Introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Scott-Moncrieff
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

1 November 2011

GOVERNANCE COMPLIANCE STATEMENT

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-compliance (if applicable)
Structure				
1.1	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Responsibility rests with the Superannuation Fund and Pensions Sub Committee, a sub-committee of Fife Council	Yes	
1.2	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The sub-committee is made up of 9 councillors from Fife Council and 2 non voting representatives selected by the Joint Negotiating and Consultative Forum (JNCF)	Partial. Further representation is being progressed as agreed at the August 2011 committee.	.
1.3	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable – there is no secondary committee or panel		
1.4	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not applicable – there is no secondary committee or panel		

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-compliance (if applicable)
Representation				
2.1	<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-</p> <p>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</p> <p>ii) scheme members (including deferred and pensioner scheme members);</p> <p>iii) where appropriate independent professional observers; and</p> <p>iv) expert advisors (on an ad-hoc basis)</p>	<p>Fife Council is represented.</p> <p>Scheme members, including deferred and pensioner scheme members, are represented by two non-voting representatives selected by the JNCF.</p> <p>Independent professional observers will be invited on the sub-committee on ad hoc basis as agreed at the August 2011 committee.</p> <p>Attend as required</p>	<p>Partial.</p> <p>Further representation is being progressed as agreed at the August 2011 committee.</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	
2.2	<p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>All members, voting and non-voting i.e. observers, receive the same access to all papers and training and are given the opportunity to participate fully in the decision making process.</p>	<p>Yes</p>	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-compliance (if applicable)
Selection and Role of Lay Members				
3.1	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	All new members of the sub-committee are offered induction training, including guidance from the Council's Legal Services Division about their role and responsibilities	Yes	
3.2	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Noted on every sub-committee agenda paper	Yes	
Voting				
4.1	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	The 9 councillors have voting rights. Non voting members are able to play a full role. Section 14 of the Local Government & Housing Act 1989 states a member of a committee who is not a member of that authority shall be treated as a non-voting member. However, the administering authority has discretion over this matter. This discretion has not been adopted.	Yes	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-compliance (if applicable)
Training/Facility Time/Expenses				
5.1	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility, time and reimbursement of expenses in respect of members involved in the decision-making process.	All new members of the sub-committee are offered training by officers. During the year further training is offered, generally from officers and investment managers of the Fund. In addition, if officers identify other training opportunities which may include attendance at conferences or seminars, then these are offered to the committee as appropriate. Costs and expenses incurred are met by the Pension Fund.	Yes	
5.2	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Applies to all members of sub-committee.	Yes	
5.3	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Training is offered on an ad hoc basis as needs are identified. A log of attendance is held.	Partial	Tools to carry out a needs assessment are being investigated and will be in place for the new committee following the 2012 elections

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-compliance (if applicable)
Meetings (frequency/quorum)				
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable – there is no secondary committee or panel		
6.3	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum held annually, also open days held for members. Presentations provided on request.	Yes.	
Access				
7.1	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members and observers are treated equally in terms of access to papers and advice	Yes	
Scope				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the sub - committee includes all pension related matters	Yes	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-compliance (if applicable)
Publicity				
9.1	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	<p>Governance Policy Statement to be approved by August 2011 sub-committee</p> <p>Governance policy / compliance statement available on mini site and is included in Pension Fund Annual Report</p>	<p>Partial.</p> <p>Further representation to be progressed as a result of the August 2011 sub-committee meeting.</p>	

FIFE COUNCIL SUPERANNUATION FUND

**STATEMENT OF INVESTMENT PRINCIPLES
(February 2010)****1.0 INTRODUCTION**

- 1.1 This Statement of Investment Principles has been prepared in accordance with The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, as amended.
- 1.2 The Statement is provided to the Fund's investment managers, who are required to follow the principles that it sets out.

2.0 EFFECTIVE DECISION-MAKING

- 2.1 Fife Council is the administering authority of the Fife Council Pension Fund. The Council has set up The Superannuation Fund and Pensions Sub-Committee which has representative Councillor Members. The Terms of Reference of the Sub-Committee are:- "to arrange for the supervision of the management and administration of the investments of the Superannuation Fund, Common Good Fund and all Trust Funds and to make decisions in regard to the appointment of Fund Managers in that regard; and to consider and determine (except insofar as delegated to the Executive Director, Finance and Resources or any other officer) all matters relating to the Council's functions in regard to pensions administered by the Council...."
- 2.2 The Sub-Committee meets quarterly to consider both pension and investment matters. It also sets the investment objectives and policy. With the exception of a small residual venture capital portfolio, which is administered in-house, the Fund's assets are managed by external fund managers, who have delegated authority to carry out all day to day investment decisions including acquisition and realisation of investments within the constraints of the agreed benchmarks.
- 2.3 Regular training will be offered to the members of the Sub-committee from appropriate sources and staff from the Democratic Services & Standards and Governance Service will record attendance.

3.0 CLEAR OBJECTIVES and AREAS OF RISK AND LIABILITIES

3.1 The Fund's investment objectives are as follows:

- (a) To secure and maintain sufficient assets to meet liabilities which fall due by the Fund under the Local Government Pension Scheme.
- (b) To minimise the risk of assets failing to meet these liabilities.
- (c) To maximise investment returns within an acceptable level of risk whilst, at the same time, providing stability in the level of employers' contribution rates.

3.2 Risk

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

(a) Solvency Risk and Mismatching Risk

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

(b) Manager Risk

Addressed through the appointment of 7 Fund managers and the ongoing quarterly monitoring of their performance and strategy.

With regard to the above, the Fund's current strategic benchmark which took effect from 1 January 2007 is to achieve a real return above inflation of 1.85% gross.

3.3 The Executive Director, Finance and Resources, provides technical support to the Sub-Committee as necessary.

3.4 Regular audits, both internal and external are carried out and results are submitted to the appropriate Committee.

3.5 The Fund Managers have full discretion regarding choice of investments. It is expected, however, that the Fund will have a mix of real and monetary assets. The Managers' asset allocation strategy will provide for suitable diversification, which will contribute to risk management in accordance with the objective set out in para 3.2.

- 3.6 The Fund is managed in accordance with The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, as amended or revised.
- 3.7 The Fund's investment management arrangements are fully reviewed in accordance with practice approved by the Sub Committee.

The following is the Total Fund strategic benchmark from 1 January 2007:-

Asset Class	Allocation %	Benchmark
UK Equities	35	FTSE All Share
Overseas Equities	35	MSCI World
Bonds	20	Customised
Property	10	IPD All Property Trusts
Cash	0	30 Day LIBID
Total	100	Customised

4.0 PERFORMANCE ASSESSMENT

- 4.1 An independent performance management company is appointed to provide regular reports for the Sub-Committee members. These reports detail the investment performance of the Fund managers. In addition an annual report will be provided to the sub-Committee outlining the performance of the Fund against its benchmark and for each individual Fund manager in relation to the Fund managers' set investment objectives and the market as a whole.
- 4.2 Training and Committee attendance of members of the Superannuation and Pensions Fund Sub-Committee is monitored on an annual basis.

5.0 RESPONSIBLE OWNERSHIP

- 5.1 Whilst the Fund managers have delegated powers for the acquisition and realisation of investments, fund managers will be expected, as part of their investment process, to consider all factors, including the social, environmental and ethical policies of companies in which they may invest to the extent that these may materially affect the long term prospects of such companies. The Fund managers will also be expected to enter into dialogue with companies in which they invest in relation to the pursuance of socially responsible business practices, and report regularly to the Sub-Committee on these activities.
- 5.2 Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle, the Fund will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised, however, that, in practical terms, this may not always be possible for overseas holdings. However, for UK stocks, held in

segregated portfolios, all voting rights will be exercised in a positive fashion, i.e. no abstentions.

- 5.3 The Fund will vote in favour of proposals that would enhance shareholders' value and against those that may damage shareholders' rights or economic interests.
- 5.4 Voting will be exercised by the Fund managers, who will act in accordance with this policy. Where exceptional or controversial issues arise, the Fund managers shall consult with the Executive Director, Finance and Resources, and Chair of the Superannuation Fund and Pensions Sub-Committee on how votes should be cast. Where time allows, a meeting of the Sub-Committee will be convened to consider the matter before a decision is taken.
- 5.5 Regular reports will be provided to the Sub-Committee detailing the votes cast on behalf of the Fund. In addition, Fund managers will provide updates on corporate governance engagement undertaken.

6.0 *TRANSPARENCY AND REPORTING*

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

7.0 *COMPLIANCE*

- 7.1 This Statement of Investment Principles complies with 6 Principles set out in the Chartered Institute of Public Finance and Accountancy's publication –Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – A Guide to the Application of the Myners Principles.

ADDITIONAL INFORMATION

Fund Advisors as at 31 March 2011

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

Comments and Suggestions

Your comments and suggestions on this report would be appreciated, as would any suggestions for items to be included in the future. Please email your comments to Pensions.section@fife.gov.uk

Contact Details

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

Fife Council, Fife House, North Street, Glenrothes, Fife, KY7 5LT.
For benefit information, address to Payroll/Pensions Team.
For investment information, address to Banking and Investments Team.

Email:- Pensions.section@fife.gov.uk

Telephone 01592 583278

